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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY OF
WILLIAM P. TAYMAN
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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Direct Testimony
of
William P. Tayman
AUTOBIOGRAPHICAL SKETCH

1
2 My name is William P. Tayman, Jr. and I am the Manager, Budget &
3 Financial Analysis for the United States Postal Service. I was appointed to this
4 position in September 1995 and my primary responsibilities include the
5 development and administration of national operating budgets.

6 Prior to this appointment, I was Manager, Strategic & International
7 Finance and Manager, Revenue, Volume and Cost Analysis. I began my career
8 with the Postal Service in 1975. From 1975 through 1978, I held positions at the
9 Postal Service Training & Development Institute and in the Accounting Division
10 at Postal Headquarters. During the period from 1978 through 1980 I was
11 employed by the Pension Benefit Guaranty Corporation (PBGC). At PBGC, I
12 held the position of Deputy Controller.

13 In 1980, I returned to the Postal Service Headquarters as General
14 Manager and then Office Director of Accounting. In this position, I served as
15 chief accountant of the Postal Service. In 1991, I was selected to attend the
16 Sloan Fellows Program at Stanford University where I received a Master's
17 Degree in Management. I also received a Bachelor Degree in Business and
18 Public Administration from the University of Maryland in 1972. After graduation
19 from the University of Maryland, I was employed at Hoye, Graves, Bailey & Co.,
20 a regional Certified Public Accounting firm.

21 I am a licensed Certified Public Accountant in the State of Maryland. I
22 also am a member of the American Institute of Certified Public Accountants and
23 the Maryland Association of Certified Public Accountants. In Docket Nos. R87-1
24 and R90-1, I sponsored testimony concerning the estimation of workers'
25 compensation and retirement costs. In Docket No. R97-1, I sponsored the
26 Postal Service's revenue requirement testimony.

I. PURPOSE AND SCOPE OF TESTIMONY AND GUIDE TO SUPPORTING DOCUMENTATION

My testimony presents the Postal Service's revenue requirement for the Test Year (TY)¹. This testimony was prepared in conformance with the Commission's Rules of Practice and Procedure to support the Postal Service's revenue requirement for the Test Year. The attached exhibits and the material included in Library References I-126, I-127, and I-128 supplement my testimony.

Exhibits A through S are at the end of my testimony and are preceded by an index of Exhibits. These exhibits provide summary components of the revenue requirement. Library Reference I-126, "Explanation of Cost Reductions and Other Programs," supplies the narrative descriptions and fundamental estimating elements of the cost reduction program savings and other programs expense built into the revenue requirement. Library Reference I-127, "Rollforward Expense Factors," supplies the detailed calculations underlying the revenue requirement. Library Reference I-128, "Workers' Compensation Expense," supports the projection of Workers' Compensation liability and expense.

My testimony is organized into five chapters as described below.

Chapter I explains the purpose of my testimony. Chapter II, entitled "Summary of Financial and Operating Results and Current Financial Condition," describes (1) financial and operating results over the last ten years, (2) the current financial condition of the Postal Service, and (3) service performance and customer satisfaction. This chapter shows the recent progress the Postal Service has made in improving its financial position, improving service, and restoring equity. The material presented supports a proposed level of rate increases consistent with management's goals of continuing to strengthen the Postal Service's financial position, improve service, and restore equity.

^{1/} The various fiscal or other periods discussed in this testimony include the following:

The Test Year (FY 2001)	- October 1, 2000 to September 30, 2001
Fiscal Year 2000	- October 1, 1999 to September 30, 2000
Fiscal Year 1999	- October 1, 1998 to September 30, 1999
The Base Year (FY 1998)	- October 1, 1997 to September 30, 1998

Chapter III, entitled "Test Year Revenue Requirement," (1) describes the specific sources of the changes in Postal Service costs which are included in the revenue requirement, (2) identifies the assumptions used to project cost increases, and (3) defines the change in the revenue requirement by cost segment. This chapter also addresses the basis for estimating the provisions for contingencies and recovery of prior years' losses required to support the financial integrity and stability of the Postal Service. As a departure from prior rate cases, this section incorporates the Postal Service's testimony on Workers' Compensation expense.

Chapter IV, entitled "Revenues Before and After Rates," describes the level of revenue anticipated during the Test Year on a before-rates and after-rates basis. This chapter provides a comprehensive analysis of our revenue estimates by combining a discussion of the revenue anticipated from mail and special services with a discussion of anticipated revenues from appropriations and investment income.

In Chapter V, entitled "Test Year Revenue Deficiency," I calculate the overall revenue deficiency and analyze the effect of the proposed rates on that deficiency.

II. SUMMARY OF FINANCIAL AND OPERATING RESULTS AND CURRENT FINANCIAL CONDITION

In this chapter, I discuss financial results over the last ten years, the current financial condition of the Postal Service, and recent service performance. Unless otherwise noted, the data used in this analysis are drawn from the Audited Financial Statements of the United States Postal Service for Fiscal Years 1989 through 1998.

The financial results for this ten-year period reflect the recent reversal of the difficulties the Postal Service previously had in meeting its break-even requirement over time, while providing reliable service and a reasonable degree of rate stability. During much of that previous period, the Postal Service dealt with unprecedented financial burdens as a result of cost transfers in excess of \$13 billion (see Exhibit USPS-9K), resulting from Omnibus Budget Reconciliation Acts (OBRAs). There have been no additional cost transfers since the Omnibus Reconciliation Act of 1993, with the exception of transferring the requirement for funding Post Office Department Workers'

Compensation expense in FY 1997 under the Balanced Budget Act of 1997. This absence of additional obligations to the Federal Government, coupled with the benefits of the 1992 restructuring and debt refinancing, moderate increases in the cost of labor and other resources, improved service, and continued growth in mail volume and revenue, have enabled the Postal Service to reverse the historical pattern of rate cycle losses.

Most recently, however, the delayed implementation and reduced amount of the Docket No. R97-1 rate increase, is not permitting revenue growth to exceed cost growth. Costs are estimated to continue to rise more rapidly than revenues. I will elaborate on the specific reasons postal costs are estimated to continue to rise through the test year later in my testimony.

Table 1 presents the net income (loss) and equity by year for the ten-year historical period.

Table 1
Postal Service Net Income/(Loss) and Equity
(\$ Millions)

Period	Net Income/(Loss)	Equity
FY 1989	61	(402)
FY 1990	(874)	(1,278)
FY 1991	(1,469) ²	(2,747)
FY 1992	(536) ³	(3,283)
FY 1993	(1,765) ⁴	(5,048)
FY 1994	(914)	(5,961)
FY 1995	1,770	(4,191)
FY 1996	1,567	(2,624)
FY 1997	1,264	(1,360)
FY 1998	550	(810)
Cumulative Net Income (Loss)	(346)	

Losses occurred in five of the ten years. Net incomes have been achieved in each of the last four years, but has declined from a high of \$1.770 billion in FY 1995 to \$550 million in FY 1998. Fiscal Year 1999 net income dropped to \$363 million and

^{2/} Includes OBRA 1991 extraordinary retroactive assessment for employee benefits (\$1,810 million).

^{3/} Includes restructuring costs of \$1,010 million.

^{4/} Includes OBRA 1993 (\$857 million) and debt refinancing premium (\$536.5 million).

1 Fiscal Year 2000 net income is expected to drop to \$66 million.

2 Despite the fact that this ten year period includes this unprecedented four-year
3 string of net incomes and the three highest net incomes ever earned by the Postal
4 Service, a cumulative \$346 million net loss was incurred. This means the Postal
5 Service failed to make ground against its prior years' losses recovery objective during
6 the last decade. Equity declined from negative \$402 million in Fiscal Year 1989 to
7 negative \$810 million in Fiscal Year 1998. And equity remains negative with the \$363
8 million net income reported for FY 1999.

9 The two year period of Fiscal Year 1994 and 1995 is the only time revenue
10 growth has exceeded expense growth in consecutive years. As shown in Table 2,
11 annual revenues have risen a total of \$24.2 billion or 67.3 percent since Fiscal Year
12 1989. This is marginally greater than the \$23.0 billion or 63.0 percent increase in
13 annual expenses over the same period. The Postal Service has narrowed the
14 cumulative gap between revenues and expenses as a result of the turnaround
15 accomplished in Fiscal Years 1994 and 1995.

16 While recent results are very favorable, it is important to recognize that equity
17 remains substantially negative and well below the capital contribution of the U.S.
18 Government. In addition, for the third straight year, expense growth exceeded revenue
19 growth in Fiscal Year 1998. The negative revenue to expense growth relationship seen
20 in Fiscal Year 1998 continued into Fiscal Year 1999 and indicates that future losses are
21 likely unless rates are increased.

Table 2 presents the year-to-year and cumulative percentage increases in total revenue and expenses for the ten-year period ending September 30, 1998.

Table 2
Comparison of Annual Percent Increase in
Revenue and Expense for the Ten Years
FY 1989 - FY 1998
(\$ Millions)

Period	Revenue ⁵	% Chg.	Expense ⁶	% Chg.
FY 1988	35,939		36,536	
FY 1989	38,920	8.3	38,859	6.4
FY 1990	40,074	3.0	40,948	5.4
FY 1991	44,202	10.3	45,671	11.5
FY 1992	47,105	6.6	47,642	4.3
FY 1993	47,986	1.9	49,751	4.4
FY 1994	49,577	3.3	50,491	1.5
FY 1995	54,509	9.9	52,739	4.5
FY 1996	56,544	3.7	54,977	4.2
FY 1997	58,331	3.2	57,066	3.8
FY 1998	60,117	3.1	59,567	4.4
Ten-Year Increase FY 1998 vs. FY 1988	24,178	67.3	23,031	63.0

With the Docket No. R94-1 rate increases effective in January 1995, the Postal Service's financial position showed unprecedented improvement, reversing the previous trend of rate cycle losses. The Postal Service also expects to generate a cumulative net income over the current rate cycle, which began on January 10, 1999, but these net incomes are expected to be much less substantial than the net incomes during the Docket No. R94-1 rate cycle.

Two financial indicators discussed in the Docket Nos. R94-1 and R97-1 revenue requirement testimony as examples of worsening financial condition are the current ratio and working capital. These indicators have continued to decline; however, this is mainly due to a financial policy change, not a fundamental worsening of financial condition. The Postal Service has implemented a more aggressive cash management program that emphasizes the economic use of available cash to reduce debt, while still meeting current liabilities as they come due. This has reduced cash, reduced debt, and

^{5/} Includes interest income and appropriations.

^{6/} Includes interest expense and all extraordinary, unusual, and non-recurring expenses.

lowered interest expense.

Table 3 compares the ratio of current assets to current liabilities at the end of each fiscal year since 1989. This comparison indicates that with the exception of Fiscal Year 1995, the Postal Service's current ratio has declined substantially and consistently since Fiscal Year 1989. Table 4 shows that during the period Fiscal Year 1989 to 1992 the amount of debt outstanding also increased each year. Taken together, a declining current ratio and an increasing debt level are often indicative of worsening financial condition. However, the decline in working capital that occurred in Fiscal Year 1996 was mainly the result of changes in debt management, not worsening financial condition. The decline in working capital since Fiscal Year 1995 is primarily due to growth in the current portion of long-term debt and use of short-term revolving credit. After reducing debt five straight years through FY 1997, debt increased in FY 1998. This increase reflects that the most significant opportunities for optimizing cash management have been realized. Debt financing is once again required to support the Postal Service's capital program. The proposed rate increase will mitigate the level of debt required to fund capital programs.

Table 3
Comparison of Current Ratios Since FY 1989
(\$ Millions)

Period	Current Assets	Current Liabilities	Ratio
FY 1989	5,448	5,898	.92
FY 1990	4,393	6,290	.70
FY 1991	4,863	7,400	.66
FY 1992	6,027	9,484	.64
FY 1993	4,478	10,140	.44
FY 1994	2,683	11,665	.23
FY 1995	2,775	11,299	.25
FY 1996	1,447	12,573	.12
FY 1997	1,463	13,834	.11
FY 1998	1,528	14,913	.10

Table 4
Change in Working Capital and Debt
(\$Millions)

Period	Increase/(Decrease) In Working Capital	Increase/(Decrease) In Debt
FY 1989	318	596
FY 1990	(1,447)	494
FY 1991	(640)	1,470
FY 1992	(920)	1,484
FY 1993	(2,205)	(176)
FY 1994	(3,321)	(761)
FY 1995	457	(1,708)
FY 1996	(2,601)	(1,361)
FY 1997	(1,245)	(47)
FY 1998	(1,014)	549

The ratio of total assets to total liabilities reflects the recent improvement in financial position. After declining from Fiscal Year 1989 to a low of .73 in Fiscal Year 1994, this ratio has risen to .90. Public policy changes resulting in reductions in revenue forgone appropriations and increased OBRA payments for annuitant costs, expenses related to restructuring, and the refinancing of debt contributed to the decline in the first half of the ten year period. While the improvement in this ratio is encouraging, it is important to recognize that the ratio is still less than one and the rate of improvement has slowed.

Table 5
Comparison of Total Assets to Total Liabilities⁷
(\$ Millions)

Period	Total Assets	Total Liabilities	Ratio
FY 1989	15,801	16,814	.94
FY 1990	15,943	17,880	.87
FY 1991	18,069	21,770	.83
FY 1992	20,885	25,231	.83
FY 1993	20,215	26,414	.77
FY 1994	19,169	26,364	.73
FY 1995	19,962	25,499	.78
FY 1996	19,659	23,768	.83
FY 1997	21,209	24,155	.88
FY 1998	22,699	25,215	.90

^{7/} Excludes the asset Deferred Retirement Costs and the long-term liability Amounts Payable for Retirement Benefits. The current liability portion of Amounts Payable for Retirement Benefits has been included as a liability.

The Postal Service has also achieved consistent service improvements during the recent period of financial improvement. As reflected in Table 6, key national indicators of service performance from the Residential Customer Satisfaction Measurement System have all shown improvement since Quarter II of Fiscal Year 1994. In general, the attributes of customer satisfaction which make up the Residential Customer Satisfaction Measurement System have consistently improved at the same time unprecedented financial results have been achieved.

Table 6
Customer Satisfaction Measurement System
Combined Excellent / Very Good Percent Trend
PQ II FY 1994 – PQ IV FY 1999

Period	OVERALL PERFORMANCE	MAIL DELIVERY AT ABOUT THE SAME TIME EACH DAY	CONVENIENCE OF WINDOW SERVICE HOURS	REASONABLE DAYS TO DELIVER FORWARDED MAIL
PQ 02 FY 1994	53	52	47	40
PQ 03 FY 1994	54	53	48	42
PQ 04 FY 1994	52	52	48	40
PQ 01 FY 1995	52	52	47	41
PQ 02 FY 1995	54	54	48	43
PQ 03 FY 1995	58	56	50	45
PQ 04 FY 1995	59	56	51	46
PQ 01 FY 1996	64	58	54	47
PQ 02 FY 1996	67	59	53	48
PQ 03 FY 1996	NA	NA	NA	NA
PQ 04 FY 1996	70	56	55	58
PQ 01 FY 1997	69	53	54	57
PQ 02 FY 1997	69	55	56	57
PQ 03 FY 1997	69	56	55	56
PQ 04 FY 1997	70	56	54	56
PQ 01 FY 1998	69	54	55	56
PQ 02 FY 1998	73	58	55	52
PQ 03 FY 1998	72	58	54	51
PQ 04 FY 1998	72	59	55	55
PQ 01 FY 1999	71	50	57	57
PQ 02 FY 1999	71	51	56	54
PQ 03 FY 1999	70	52	55	56
PQ 04 FY 1999	71	53	55	56

First-Class Mail service, as measured by the External First-Class measurement system (EXFC), has also shown consistent improvement over this time period. EXFC measures service performance from the time mail enters the mailstream until it is

delivered to a household, small business, or post office box. EXFC provides quarterly estimates of destinating First-Class Mail service performance for all Performance Clusters. Beginning in FY 1999, the number of 3-digit ZIP Codes included in the measurement was expanded from 301 to 465. This represents approximately 80% of the nation's destinating First-Class stamped and metered mail volume. Table 7 shows the improvement in overnight, two day, and three day service commitments.

Table 7
EXFC Performance
PQ II FY 1994 – PQ IV FY 1999

PERIOD	OVER NIGHT	TWO DAY	THREE DAY	COMPOSITE
PQ 02 FY 1994	78.80	66.72	65.44	72.32
PQ 03 FY 1994	82.75	72.37	76.84	78.52
PQ 04 FY 1994	82.56	74.36	78.55	79.36
PQ 01 FY 1995	84.09	75.53	80.16	80.85
PQ 02 FY 1995	84.52	75.04	75.52	79.79
PQ 03 FY 1995	86.82	79.07	82.19	83.58
PQ 04 FY 1995	87.23	80.10	82.72	84.21
PQ 01 FY 1996	87.76	79.49	82.24	84.22
PQ 02 FY 1996	87.31	75.54	70.93	79.98
PQ 03 FY 1996	90.41	80.04	80.25	85.58
PQ 04 FY 1996	91.21	80.25	82.82	86.09
PQ 01 FY 1997	90.77	75.90	79.01	77.41
PQ 02 FY 1997	90.75	71.74	70.03	70.92
PQ 03 FY 1997	92.15	78.59	80.20	79.36
PQ 04 FY 1997	92.35	78.58	80.14	79.32
PQ 01 FY 1998	92.86	78.88	80.49	79.66
PQ 02 FY 1998	92.66	78.70	74.24	76.56
PQ 03 FY 1998	93.51	86.06	83.68	84.85
PQ 04 FY 1998	93.02	87.66	86.44	87.03
PQ 01 FY 1999	92.78	86.47	86.69	86.58
PQ 02 FY 1999	93.15	83.36	79.18	81.25
PQ 03 FY 1999	93.54	86.89	86.87	86.88
PQ 04 FY 1999	93.74	88.37	88.12	88.25

In addition to the costs that are already reflected in the Fiscal Year 1998 results, additional cost increases, more fully described later in my testimony and in Library Reference I-127, are anticipated to have a near term adverse impact on the Postal Service's financial condition. These include: (1) increased labor costs specified in current negotiated and arbitrated labor contracts; (2) increased costs associated with major program initiatives designed to continue service improvements, improve

1 responsiveness to customers, maintain and improve our infrastructure, and reduce
2 costs in the future; (3) increases in health benefits; and, (4) increases due to general
3 inflation in the cost of goods and services. Higher costs generally also have an adverse
4 impact on the amount of cash available for debt reduction, which results in higher
5 interest expense.

6 In my testimony that follows, I project the expected results for the Test Year and
7 discuss the need for a provision for contingencies. The Test Year deficiency, if the
8 proposed rates are not implemented, will be approximately \$3.7 billion, which includes
9 prior years' losses recovery. In my opinion, the Postal Service should not allow a
10 deficiency of this magnitude to occur. Instead, the Postal Service should opt for a
11 moderate increase in rates, and a continuation of equity restoration and strengthening
12 of financial position. Without the proposed rate increase, the Postal Service cannot
13 meet the Board of Governors' policy on equity restoration⁸, and will find it increasingly
14 difficult to fund expenditures critical to the future viability of the Postal Service. High
15 levels of borrowing would be required and would add significantly to interest expense.

16 Planning to operate at a loss, to defer equity restoration, and to borrow for
17 operations would be to plan for financial failure. In light of the increasing additional
18 costs which I discuss below, and my financial projections for the Test Year, I conclude
19 that the most responsible course of action is to increase Postal Service revenues
20 through a general increase in rates.

21 22 III. TEST YEAR REVENUE REQUIREMENT

23 The revenue requirement is developed by estimating changes from a Base Year
24 in which costs and revenues are known. There are three periods involved in
25 development of the revenue requirement: The Base Year, (Fiscal Year 1998), the
26 Interim Years (Fiscal Years 1999 and 2000) and the Test Year (Fiscal Year 2001).

27 A. Summary of Test Year Cost Estimating Procedures

28 1. Base Year

⁸ Docket No. MC96-3, Library Reference SSR-112.

1 The Base Year employed by me and by postal cost witnesses in
2 this case is Fiscal Year 1998. Revenues, expenses, net income and balance sheet
3 items developed throughout my testimony are consistent with those in the audited and
4 published financial statements for that year.

5 2. Fiscal Years 1999, 2000 and the Test Year

6 Three estimated fiscal years, i.e., Fiscal Years 1999 and 2000, and
7 the Test Year, will be treated separately in my testimony, not in the aggregate. Cost
8 estimating procedures have been applied to each of these years, as necessary and
9 direct steps in the development of Test Year costs. Final, audited Fiscal Year 1999
10 data were available very shortly prior to the filing of Docket No. R2000-1, but were not
11 available sufficiently in advance to be incorporated fully into cost estimating procedures.
12 However, the Fiscal Year 1999 estimates presented herein are extremely close to the
13 actual financial results. Projected net income was \$355 million as compared to actual
14 net income of \$363 million. Actual FY 1999 revenues of \$62.755 billion were used in
15 this filing. Estimated expenses of \$62.400 billion used in this filing were within 0.06
16 percent of the actual FY 1999 expenses of \$62.363 billion. The correspondence of
17 projected and actual FY 1999 financial results confirms the viability of FY 1998 as the
18 base year and supports the reliability of the cost estimating procedures used in this
19 testimony.

20 3. Sources of change

21 Sources of change are classified as base year unit cost
22 adjustment, cost level, mail volume effect, non-volume workload effect, additional
23 workday effect, cost reductions, other programs, workyear mix adjustments and final
24 adjustments. These sources of change were individually computed for purposes of
25 explaining total cost differences between the Base Year, Fiscal Years 1999 and 2000,
26 and the Test Year in order to establish the basis for the revenue requirement. My
27 testimony explains the derivation of sources of change factors with the exception of
28 base year unit cost adjustments, mail volume, and final adjustments, including the mail
29 mix adjustment. The rollforward witness utilizes sources of change factors to run the
30 rollforward model. My Exhibit 9B contains rollforward model change reports that

1 summarize each of the sources of change for FY 1999, FY 2000 and the Test Year that
2 result from the factors developed by me and other Postal Service witnesses. The total
3 Test Year revenue requirement is determined by adding final adjustments,⁹ the
4 contingency, and the amount included to recover prior years' losses, to the amount
5 reflected on the after rates rollforward model test year change report which has been
6 adjusted for the workyear mix.¹⁰

7 a. Cost level

8 Estimating the increase in the cost of current year resources
9 produces cost level changes for the subsequent year. Year-to-year price changes
10 primarily consist of increases in the unit cost of personnel compensation and benefits
11 and the cost of the previous year's level of non-personnel resources. As detailed in my
12 Exhibit 9Q, cost level changes in salaries are estimated to average 3.1% in FY 1999,
13 3.0% in FY 2000 and 4.0% in the test year. Cost level changes in benefits are
14 estimated to average 4.8% in FY 1999, 6.5% in FY 2000 and 6.4% in the test year.
15 The derivation of cost level factors is explained in detail in Chapters VIII and IX of
16 Library Reference I-127.

17 b. Mail volume effect

18 Mail volume effect is cost changes due to increases or decreases
19 in mail volume and special services volume. Cost variability due to the mail volume
20 effect is detailed in the testimony and workpapers of witness Kashani (USPS-T15).

21 c. Non-volume workload effect

22 These are cost changes that result from variation in measurable
23 workload characteristics other than mail volume. For example, city carrier street costs
24 vary with the number of possible deliveries. The most significant of these in terms of
25 financial impact are the number of possible city deliveries, the number of rural boxes
26 and route miles, and the amount of facilities square footage. Non-volume workload
27 factors are summarized in Table 8. The computation of non-volume workload factors is

⁹ Final adjustments are calculated by other witnesses and summarized and sourced in witness Kashani's Exhibit USPS-151.

¹⁰ Exhibit 9B, page 9.

explained in Chapter IVd of Library Reference I-127. The application of these factors to Postal Service costs is explained in the testimony and workpapers of witness Kashani (USPS-T15).

Table 8
Non-Volume Workload Factors
% Change from Previous Year

	FY 1999	FY 2000	Test Year
No. of Post Offices ¹¹	0.3%	(0.0)%	(0.0)%
Possible City Deliveries	0.6%	0.6%	0.6%
Rural Route Miles	2.2%	2.2%	2.2%
Rural Boxes & Route Miles ¹²	3.0%	3.0%	3.0%
Contract Stations	(2.8)%	3.5%	3.3%
Cag L Post Offices	(10.8)%	(2.8)%	(2.9)%
Facilities Sq. Footage (Leased)	2.1%	2.1%	2.1%
Facilities Square Footage (Interior)	3.1%	3.8%	1.8%

d. Additional workday effect

Some costs vary according to the number and composition of days in each Government Fiscal Year. For example, costs are higher on weekdays (except holidays) than Saturdays, and lowest on Sundays and holidays. The derivation of the additional workday factor is detailed in Chapter VII of Library Reference I-127 and the application of these factors to Postal Service costs is explained in the testimony and workpapers of witness Kashani. The number of days in each of the relevant years is shown in Table 9.

Table 9
Analysis of Work Days by Fiscal Year

	FY 1998	FY 1999	FY 2000	Test Year
Weekdays	251	251	251	250
Saturdays	52	52	53	52
Sundays	52	52	52	53
Holidays	10	10	10	10
Workday Equivalents	293.27	293.27	293.94	292.40
Total Days	365	365	366	365

¹¹ Weighted by Postmaster salaries by class.

¹² Weighted average.

e. Cost reductions

Numerous management-initiated cost reduction programs are currently in progress or planned which will result in significant cost savings. Headquarter's financial and operating managers, with the assistance of Area, District, and Plant personnel, develop and implement plans and monitor performance of specific projects and activities aimed at reducing operating expenses. Most of the cost reduction savings impacting FY 1999, FY 2000 and the Test Year derive from automation and other equipment. Table 10 summarizes the impact of cost reduction programs in the interim years and the Test Year by cost segment. A detailed listing of the major personnel cost related cost reduction programs and the calculation of the workyear and dollar cost savings is included in Library Reference I-127, Chapter Va. A listing of the major non-personnel cost related cost reduction programs is included in Chapter Vg of Library Reference I-127. A narrative description of these programs and the basis for the resource savings is contained in Library reference I-126.

Table 10
Cost Reductions
(\$ 000)

Segment	FY 1999	FY 2000	Test Year
2. Supervisors and Technical Personnel	-	45,906	-
3. Clerks and Mail Handlers, CAG A-J	407,770	441,793	475,374
6&7. City Delivery Carriers	123,368	400,354	151,374
11. Custodial and Maintenance Services	8,084	13,299	1,673
14. Purchased Transportation of Mail	130,985	79,225	25,526
Total	670,207	980,577	653,947

Unlike in Docket No. R97-1, significant cost savings are projected for supervisory costs between the base year and the test year. It is the Postal Service's position that these are the only appropriate cost savings projections for supervisors and no additional cost savings should be estimated. Cost reduction programs have different impacts than volume and should not be piggybacked. Frequently, cost reduction programs require additional supervisory time and attention in order to capture cost savings, to maintain service, and to ensure operating efficiencies. The potential for supervisory cost savings is addressed in the FY 2000 cost savings program.

f. Other Programs

This category includes changes in costs associated with management-initiated actions other than cost reductions that change the status quo (e.g., improve service or satisfy administrative or legal requirements). Some programs satisfy a one-time need and are not intended to continue indefinitely, while others will add additional costs that continue indefinitely. The resource costs associated with cost reduction programs are included under Other Programs. This category also includes changes in expenses not directly linked to operations, such as interest, depreciation and corporatewide personnel costs such as annuitant costs and workers' compensation. Other Programs also includes the impact of accounting and reporting changes and other miscellaneous adjustments that are not appropriate for inclusion in other rollforward change categories. Table 11 summarizes the impact of Other Programs on the interim years and the Test Year by cost segment. Summaries of the major Headquarters Administered Other Programs and the calculation of depreciation and nationally accrued personnel related costs are included in Library Reference I-127, Chapters IV-VI. Library Reference I-126 provides a narrative description of each amount included under the Other Program column and the basis for the estimated cost.

Table 11
Other Programs
(\$ 000)

Segment	FY 1999	FY 2000	Test Year
2. Supervisors and Technical Personnel	13,917	-8,493	-
3. Clerks and Mail Handlers, CAG A-J	209,083	59,839	9,808
6.&7. City Delivery Carriers	153,922	13,876	19,797
10. Rural Carriers	20,631	-	-
11. Custodial and Maintenance Services	22,870	31,994	29,358
12. Motor Vehicle Service	-136	-5,000	-
13. Miscellaneous Local Operations	-3394	-1,485	990
14. Purchased Transportation of Mail	46,392	56,100	18,829
15. Building Occupancy	31,382	-18,084	7,116
16. Supplies and Services	439,173	-183,822	235,204
17. Research and Development	-13,692	-18,238	135
18. Headquarters and Area Admin.	409,385	381,639	314,816
19. Equip. Maint. & Mgt. Tng. Support	9,888	-1,083	722
20. Depreciation, Write-offs, Losses, etc.	180,931	63,750	364,651
Total	1,520,352	370,993	1,001,426

1 The Other Programs expense growth for FY 2000 and the Test
2 Year are \$0.4 billion and \$1.1 billion respectively, or a total of \$1.5 billion. This is
3 substantially less than the \$3.7 billion in Other Programs expense growth estimated for
4 FY 1997 and the Test Year in Docket No. R97-1. The growth for FY 2000 and the Test
5 Year is concentrated in corporatewide personnel costs, depreciation and interest. The
6 remaining expense growth for these two years is more than offset by cost reductions
7 reflected in Table 8. Reduced program expense reflects management's commitment to
8 control costs. There is long term risk, however, in this strategy, as it requires deferral
9 and cancellation of programs that would otherwise be planned to improve the quality of
10 service, increase responsiveness to customers, and build and maintain our
11 infrastructure.

12 g. Base Year Unit Cost Adjustment

13 This adjustment applies to Fiscal Year 1999 only and is
14 documented in the testimony and workpapers of witness Kashani.

15 h. Workyear Mix Adjustments

16 The workyear mix adjustments represent the dollar impact of
17 changes in the composition of workyears expected to occur during Fiscal Years 1999-
18 2001. The methodology used in the Docket R97-1 filing, which reflected the lower cost
19 of new hires as part of the workyear mix adjustment, has been changed. The cost
20 savings related to new hires is now calculated as an offset to step increases which are
21 reflected as part of cost level changes. This approach improves the estimate by
22 including the new hire impact of rural carriers and other bargaining employees that
23 previously were not estimated. The new method is also more accurate because it
24 calculates the savings as the difference between employees' retiring at the top step and
25 their replacements' being hired at the bottom step. The old method calculated the net
26 savings as the difference between the average cost of an extended step employee and
27 the overall average personnel cost.

28 Changes in the workyear mix are estimated to result in greater
29 personnel costs for Fiscal Years 1999 through 2001 before rates, and a slight decrease
30 in costs for the Test Year after rates. These amounts are relative to the personnel

1 costs that would have resulted if the workyear mix was assumed to remain the same in
2 each estimated year as it was in Fiscal Year 1998 (i.e., the amount of personnel cost
3 calculated by the rollforward model before this adjustment). The net increases
4 calculated for Fiscal Years 1999 through 2001 before rates are \$41.3 million, \$33.9
5 million, and \$0.6 million, respectively. The amount calculated for the Test Year after
6 rates is a decrease of \$2.7 million.

7 City carrier and mail handler overtime is assumed to decrease
8 slightly in FY 1999 and continue at the FY 1999 level through the Test Year. Clerk
9 overtime is assumed to continue at the FY 1998 level through the Test Year. Clerk
10 Remote Encoding Center (REC) transitional workyears are assumed to decline through
11 the Test Year as REC's are closed. Non-REC transitional workyears are assumed to
12 increase in FYs 2000 and 2001 in automation impacted facilities. City carrier
13 transitionals are assumed to continue to decline, as Delivery Point Sequencing
14 becomes more effective. Casuals are assumed to continue to be used at the same
15 level as FY 1998 through the Test Year. The lower number of clerk transitionals in
16 Fiscal Years 1999 and 2000 is the main cause of the increased cost in those years. City
17 carrier and mail handler workyear mix changes in Fiscal Years 1999 and 2000 are
18 largely offsetting. Workyear mix changes in the Test Year are largely offsetting for
19 clerks, city carriers, and mail handlers.

20 The net impact of the changes in workyear mix is reflected as an
21 adjustment to the dollar estimates generated by the rollforward model for clerks, city
22 deliver carriers, and mail handlers. The workyear mix adjustment is explained in
23 greater detail in Chapter X of Library Reference I-127.

Table 12
Workyear Mix Expressed As a
Percentage of Straight Time Workyears

	FY 1998 Actual	FY 1999 Estimate	FY 2000 Estimate	Test Year BR Est.	Test Year AR Est.
Clerks A-J					
Career-Base	89.8%	90.5%	90.3%	89.7%	89.7%
Career-Holiday	.7%	.7%	.7%	.7	.7%
Casual	5.9%	5.9%	5.9%	5.9	5.9%
Transitional	3.6%	2.8%	3.0%	3.7%	3.7%
Subtotal St. Time	100.0%	100.0%	100.0%	100.0%	100.0%
Overtime	8.6%	8.6%	8.6%	8.6	8.6%
City Carriers					
Career-Base	96.7%	97.4%	97.5%	97.5%	97.5%
Career-Holiday	.3%	.3%	.3%	.3%	.3%
Casual	1.8%	1.8%	1.8%	1.8%	1.8%
Transitional	1.2%	.5%	.5%	.4%	.4%
Subtotal St. Time	100.0%	100.0%	100.0%	100.0%	100.0%
Overtime	11.5%	10.3%	10.3%	10.3	10.3%
Mail Handlers					
Career-Base	88.7%	88.7%	88.7%	88.7%	88.7%
Career-Holiday	1.3%	1.3%	1.3%	1.3%	1.3%
Casual	10.0%	10.0%	10.0%	10%	10.0%
Transitional	N/A	N/A	N/A	N/A	N/A
Subtotal St. Time	100.0%	100.0%	100.0%	100.0%	100.0%
Overtime	12.0%	11.5%	11.5%	11.5	11.5

i. **Final Adjustments**

FY 1998 costs reflect the mail volume mix that existed prior to the Docket No. R97-1 rate structure changes that went into effect on January 10, 1999. In order to reflect the cost changes due to those rate structure changes, adjustments were made. The derivations of these adjustments are explained in testimony and Library References of witness Daniel. Additional final adjustments are documented in the testimonies and Library References of witnesses Davis, Kashani, and Robinson.

B. **Specific Estimating Elements**

In order to predict costs in a prospective year in a complete manner, all known and certain cost changes must be acknowledged. In addition, estimates based on reasonable assumptions (for costs which will certainly change but for which rates of change are not precisely known) must be made. Examples of known and certain cost changes are depreciation on existing plant and equipment, interest expense on debt already outstanding, and the effect of the major labor agreements now in place.

1 Additional estimating procedures cover other salary and benefit changes, and general
2 price increases.

3 1. Labor Contract

4 The provisions of labor contracts are used to estimate increases
5 through the end of the contract periods. Reasonable and conservative assumptions are
6 made thereafter, setting bargaining unit test year salary expense increases at the
7 Employment Cost Index for Wages and Salaries for Private Industry, less one percent,
8 (ECI minus 1) for bargaining units that do not have contracts effective in the test year.
9 The National Rural Letter Carriers' Association contract was assumed to track the
10 NALC and APWU contracts in FY 2000. For the Test Year, carryover cost increases
11 from the previous contract are netted from ECI minus 1 for all bargaining units except
12 NALC whose contract extends through the Test Year. This method results in an
13 effective wage cost increase equal to one percent less than ECI minus 1 in the test
14 year.

15 The contract with the National Rural Letter Carriers' Association
16 expired November 20, 1999. Contracts with the American Postal Workers Union and
17 the National Postal Mail Handlers Union expire November 20, 2000. On September 19,
18 1999, an arbitration decision was announced relative to the National Association of
19 Letter Carriers' (NALC) contract that had expired on November 20, 1998. For the first
20 year of the NALC contract, most carriers will receive lump-sum payments in lieu of a
21 retroactive pay adjustment. However, NALC employees who are eligible to retire by
22 November 20, 2002, will receive a retroactive pay adjustment, making the pay increase
23 effective on November 20, 1998. The arbitrator also granted a pay schedule upgrade
24 for NALC employees from Level 5 to Level 6, and ordered the Postal Service to
25 maintain the existing salary differential between Level 5 and Level 6 employees. The
26 upgrade is effective November 18, 2000. The three-year NALC contract expires
27 November 20, 2001.

28 The derivation of an FY 2001 Test Year revenue requirement
29 required that the financial impact of wage changes scheduled to take effect under the
30 current labor contracts be estimated. The annual and effective base wage impacts

driving personnel cost level increases are summarized in my Exhibit 90. Additional details on the derivation of personnel unit cost changes, which include pay increases, lump sum payments, and cost of living allowances, can be found in Chapter VIII of Library Reference I-127. The wage and benefit costs estimated in developing the revenue requirement are not intended to imply that these costs are reflective of changes in wages and benefits which might be negotiated in the future. Equivalent costs could also result from various initiatives including wage restraint, reductions in workforce, changes in workforce composition, and increases in productivity.

2. Other Salary and Benefit Changes

Bargaining unit employees receive periodic longevity (step) increases that affect their average compensation. Similarly, performance-based increases, incurred as merit increases and lump sum payouts, affect the average compensation of non-bargaining employees. Estimated effects of these actions are included in appropriate cost level computations and are detailed in Chapter VIII of Library Reference I-127. As discussed in the Workyear Mix section above, the step increase amounts are offset by savings for new hires who start at the lowest step of the salary schedule. The estimated net step amounts for selected categories of employees are shown in Table 13 below.

Table 13
Step Increase Unit Costs Summary

	FY 1999	FY2000	Test Year
Clerks CAG A-J, Barg.	\$146.17	\$155.24	\$182.75
City Carriers, Barg.	\$172.93	\$94.92	\$188.56
Mail Handlers, Barg.	\$565.96	\$459.80	\$488.06

Federal Employee Health Benefit premiums for active employees increased an average of 3.6 percent in January 1998 and 8.7 percent in January 1999. Premium increases of 9.3 percent and 10.0 percent are expected in January 2000 and January 2001, respectively. In addition, most employees will benefit from a change in the methodology for computing the employer share of health insurance expense. The new weighted average formula, required under the labor contracts, will shift about 2

percent of the insurance premium expense from employee to employer effective January 2000. Cost level computations based on these assumptions are detailed in Chapter VIII of Library Reference I-127.

3. General Price Increases

The Postal Service is a significant purchaser of supplies for operations and maintenance, and services such as transportation. Most cost level changes for these items are based upon projections contained in the DRI/McGraw Hill¹³ USSIM/Trendlong 1199, and CISSIM/Control 1199. CPI-W estimates from DRI served as the basis for computation of cost of living adjustments (COLA) for Fiscal Year 1999, Fiscal Year 2000 and the Test Year under the existing agreements affecting bargaining unit employees.

Major indices used in this case are summarized in the Table 14.

Table 14
Selected DRI Forecast Factors
(Percent Change From Previous Year)

	FY 1998	FY 1999	FY 2000	Test Year
CPI-W ¹⁴	1.41	1.90	2.73	2.02
ECI ¹⁵	3.56	4.28	3.22	3.87
Supplies & materials	(1.46)	(1.35)	3.14	0.48

A more detailed list of the indices used, along with the specific factors for Fiscal Years 1998 through the Test Year, can be found in Chapter IX Library Reference I-127.

C. Revenue Requirement

The Test Year revenue requirement is presented in the same cost segment format employed in the testimony of witness Kashani. The total revenue requirement is the sum of accrued costs for nineteen (19) cost segments, plus workyear mix and final adjustments calculated outside the rollforward model (see USPS Exhibit 9R), a provision for contingencies, and an amount for recovery of prior years' losses.

^{13/} DRI/McGraw Hill is a leading economic forecasting service.

^{14/} CPI-W is the Consumer Price Index for all Urban Wage Earners & Clerical Workers

^{15/} ECI is the Employment Cost Index for Wages and Salaries, Private Industry. The ECI growth factors used in this testimony reflect the September index over the previous September index, with a one-year lag.

Test Year revenue requirements before and after rates are:

Table 15
Test Year Revenue Requirement
(\$ 000)

	Before Rates	After Rates
Total Cost Segments	68,046,556	67,190,634
Provision for Contingencies	1,701,164	1,679,766
Recovery of Prior Years' Losses	268,257	268,257
Total Revenue Required	70,015,977	69,138,657

1. Accrued Costs

Costs for the nineteen (19) cost segments for the Base Year through the Test Year are:

Table 16
Total Cost Segments¹⁶
(\$ 000)

	Amount	% Change
FY 1998	59,566,516	
FY 1999	62,400,368	4.8
FY 2000	64,751,757	3.8
Test Year before rates	68,046,556	5.1
Test Year after rates	67,190,634	3.8

A summary analysis of cost changes is presented here for each cost segment. Included in the analyses are specific reasons for significant cost increases or decreases. A brief description of the costs in each segment is provided; for a more detailed description, please refer to Library Reference I-1, the Summary Description of USPS Development of Costs by Segments and Components.

a. Postmasters (Segment 1)

Costs of this segment for the Base Year through the Test Year are:

¹⁶ Includes workyear mix and final adjustments. Excludes contingency and recovery of prior years' losses.

Table 17
Postmasters Cost
(\$ 000)

	Amount	% Change
FY 1998	1,710,409	
FY 1999	1,757,077	2.7
FY 2000	1,803,226	2.6
Test Year before rates	1,876,320	4.1
Test Year after rates	1,869,428	3.7

Costs of the segment are the personnel costs for the following employees:

Postmasters

District manager/postmasters of customer service districts

Some Bulk Mail Center Managers

Officers-in-Charge

Also included is the compensation and benefits for relief or replacement of postmasters. As reflected in Table 20, Postmaster costs are mainly impacted by cost level increases that result from estimated changes in salaries and benefits unit costs. Costs grow more rapidly for Fiscal Year 2001 than for Fiscal Years 1999 and 2000. Primarily the merit pay program adopted for Fiscal Years 2000 and 2001 and lump sum payments drive the pattern of cost increases. More detailed cost level assumptions and calculations can be found in Chapter VIII of Library Reference I-127.

Table 18
Significant Changes in Cost
Postmasters
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level - Personnel Costs	36,903	34,878	73,615
Mail Volume Effect	5,807	8,410	825
Additional Workday Effect	-	3,224	-7,779
Non-volume Workload	4,453	-628	-729

b. Supervisors and Technical Personnel (Segment 2)

Costs for this segment for the Base Year through the Test Year

are:

Table 19
Supervisors and Technical Personnel Cost
(\$ 000)

	Amount	% Change
FY 1998	3,512,445	
FY 1999	3,608,816	2.7
FY 2000	3,665,493	1.6
Test Year before rates	3,821,995	4.3
Test Year after rates	3,782,609	3.2

Costs of this segment include the compensation and benefits of supervisors, professionals (non-bargaining, non-supervisory personnel), managers of Postal installations other than post offices, and some Bulk Mail Center managers. As reflected in Table 19, Supervisor costs are mainly impacted by cost level increases which result from estimated changes in salaries and benefits unit costs, mail volume, non-volume workload, cost reductions and other programs. FY 2000 costs increase less than FY 1999 costs mainly due to the impact of significant cost reductions targeted in FY 2000. The merit pay program, lump sum payments and mail volume effects also affect the pattern of cost increases. Cost reductions reflect a management challenge to find new efficiencies in supervision costs. Final adjustments reflect a shift in the mail mix toward less costly categories. More detailed cost level assumptions and calculations can be found in Chapter VIII of Library Reference I-127.

Table 20
Significant Changes in Cost
Supervisors and Technical Personnel
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level - Personnel Costs	67,839	64,826	135,486
Mail Volume Effect	30,063	44,648	-4,291
Non-Volume Workload - Indirect Effects	2,119	-2,211	2,222
Additional Workday Effect	-	3,400	-8,058
Cost Reductions	-	-45,906	-
Other Programs	13,917	-8,493	-
Final Adjustments	-15,591	-4,009	-8,243

c. Clerks and Mail Handlers, CAG A through J Offices (Segment 3)

Costs for this segment for the Base Year through the Test Year

are:

Table 21
Clerks and Mail Handlers, CAG A through J Offices
(\$ 000)

	Amount	% Change
FY 1998	17,717,255	
FY 1999	18,318,646	3.4
FY 2000	19,011,163	3.8
Test Year before rates	19,442,470	2.3
Test Year after rates	19,118,127	0.6

Costs of this segment include the personnel costs of clerks and mail handlers at CAG A through J offices, including Processing and Distribution Plants and Bulk Mail Centers. As reflected in Table 22, Clerk/Mail Handler costs are mainly impacted by cost level increases which result from estimated changes in salaries and benefits unit costs. Other significant increases result from mail volume workload growth and other programs. Volume related workload growth is more than offset by cost reductions in Fiscal Years 1999 and 2000. In the Test Year, both cost reduction programs and the mail volume effect reduce costs. Clerk and mail handler workyears actually decrease between the base year and test year. Cost reductions primarily relate to automation and other equipment. Cost reductions also reflect Local Management Initiatives. Other program increases relate mainly to non-operational programs and Fiscal Year 1999 base adjustments. Final adjustments reflects a shift in the mail mix toward less costly categories. Cost reductions and other programs are detailed in Chapter Va of LR I-127.

Table 22
Significant Changes in Cost
Clerks and Mail Handlers, CAG A through J Offices
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level - Personnel Costs	685,308	761,133	763,832
Mail Volume Effect	240,396	351,894	-56,578
Non-Volume Workload Effect	686	765	658
Additional Workday Effect	-	9,246	-21,951
Cost Reductions	-407,770	-441,793	-475,374
Other Programs	209,083	59,839	9,808
Final Adjustments	-143,810	-34,426	-73,885
Base Year Unit Cost Adjustment	-22,080	-	-

d. Clerks - CAG K Offices (Segment 4)

Costs for this segment for the Base Year through the Test Year

are:

Table 23
Clerks, CAG K Offices Cost
(\$ 000)

	Amount	% Change
FY 1998	8,359	
FY 1999	8,758	4.8
FY 2000	9,273	5.9
Test Year before rates	9,734	5.0
Test Year after rates	9,643	4.0

Costs of this segment include the personnel costs for clerks assigned to CAG K offices. As reflected in Table 24, CAG K Clerk costs are mainly impacted by cost level increases which result from estimated changes in salaries and benefits unit costs.

Table 24
Significant Changes in Cost
Clerks, CAG K Offices
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level - Personnel Costs	370	424	433
Mail Volume Effect	29	82	-47
Additional Workday Effect	-	7	-18

e. City Delivery Carriers (Segments 6&7)

Costs for this segment for the Base Year through the Test Year

are:

Table 25
City Delivery Carriers Cost
(\$ 000)

	Amount	% Change
FY 1998	12,076,181	
FY 1999	12,670,154	4.9
FY 2000	12,989,251	2.5
Test Year before rates	13,787,141	6.1
Test Year after rates	13,638,050	5.0

Costs of this segment include the personnel costs of city delivery carriers. As reflected in Table 26, City Carrier costs are mainly impacted by the Fiscal Year 1999 base cost adjustment, as reflected in Other Programs, and cost level increases, which result from estimated changes in salaries and benefits unit costs. In Fiscal Year 2000 and the Test Year After Rates, there is a projected reduction in City Carrier workyears. Aggressive cost reductions targeted for FY 2000 are driven by phases 4 and 5 of Delivery Bar Code Sorter deployment and Local Management Initiatives. The final adjustments reflect a shift in the mail mix toward less costly categories. The increased rate of growth in costs in the test year relates to the provisions of the arbitrated NALC contract, and in particular, the advancement of carriers from Grade Level 5 to Level 6 pay.

Table 26
Significant Changes in Cost
City Delivery Carriers
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level - Personnel Costs	430,711	480,034	786,233
Mail Volume Effect	126,939	181,784	2,273
Additional Workday Effect	-	13,862	-33,820
Non-volume Workload Increases	28,461	30,092	31,884
Cost Reductions	-123,368	-400,354	-151,374
Other Programs	153,922	13,876	19,797
Final Adjustments	-22,748	-1,903	-9,219

f. Vehicle Service Drivers (Segment 8)

Costs for this segment for the Base Year through the Test Year

are:

Table 27
Vehicle Service Driver Costs
(\$000)

	Amount	% Change
FY 1998	457,268	
FY 1999	469,566	2.7
FY 2000	497,568	6.0
Test Year before rates	523,034	5.1
Test Year after rates	511,885	2.9

Costs of this segment include the personnel costs of Vehicle Service Drivers. As reflected in Table 28, Vehicle Service Driver costs are mainly impacted by cost level increases that result from estimated changes in salaries and benefits unit costs and by mail volume workload growth. The final adjustments reflect a shift in the mail mix toward less costly categories.

Table 28
Significant Changes in Cost
Vehicle Service Drivers
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level - Personnel Costs	15,646	18,201	18,769
Mail Volume Effect	5,446	10,818	3,961
Additional Workday Effect	-	439	-1,056
Final Adjustments	-8,520	-1,456	-7,357

g. Special Delivery Messengers (Segment 9)

Costs for this segment for the Base Year through the Test Year

are:

Table 29
Special Delivery Messenger Cost
(\$ 000)

	Amount	% Change
FY 1998	71,133	
FY 1999	0	-100.0
FY 2000	0	-
Test Year before rates	0	-
Test Year after rates	0	-

Costs of this segment include personnel costs for Special Delivery Messengers. As reflected in Table 30, Special Delivery Messenger ceased to exist as a separately identifiable craft by the end of FY 1998. To accommodate this change, Base Year Special Delivery Messenger costs were combined with Cost Segment Three, Clerks and Mail Handlers, beginning in FY 1999.

Table 30
Significant Changes in Cost
Special Delivery Messengers
(\$ 000)

	FY 1998	FY 1999	FY 2000	Test Year After Rates
Transfer To Cost Segment 3	71,132	-	-	-

h. Rural Carriers (Segment 10)

Costs for this segment for the Base Year through the Test Year are:

Table 31
Rural Carrier Costs
(\$ 000)

	Amount	% Change
FY 1998	3,678,215	
FY 1999	3,887,248	5.7
FY 2000	4,153,942	6.9
Test Year before rates	4,399,871	5.9
Test Year after rates	4,355,648	4.9

Costs for this segment include the personnel costs of rural carriers and the equipment maintenance allowance (EMA) they receive for their vehicles. As reflected in Table 32, Rural Carrier costs are mainly impacted by cost level increases, which result from estimated changes in salaries and benefits unit costs and estimated changes in the CPI-U for Private Transportation, mail volume growth, non-volume delivery workload growth, and a base adjustment in Fiscal Year 1999 as reflected in Other Programs. The final adjustments reflects a shift in the mail mix toward less costly categories.

Table 32
Significant Changes in Cost
Rural Carriers
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level - Personnel Costs & EMA	101,635	156,751	154,882
Mail Volume Effect	38,391	51,519	-959
Additional Workday Effect	-	5,271	-13,010
Non-volume Workload Effects	56,157	60,369	64,550
Other Programs	20,631	-	-
Final Adjustments	-7,573	-7,216	-3,757

I. Custodial and Maintenance Services (Segment 11)

Costs for this segment for the Base Year through the Test Year

are:

Table 33
Custodial and Maintenance Services Cost
(\$ 000)

	Amount	% Change
FY 1998	2,304,302	
FY 1999	2,449,504	6.3
FY 2000	2,635,425	7.6
Test Year before rates	2,791,854	5.9
Test Year after rates	2,780,002	5.5

Costs of this segment include the personnel costs for custodial, operating equipment, and building and plant equipment maintenance. Also included are expenses for contract cleaning services. As reflected in Table 34, Custodial and Maintenance costs are mainly impacted by cost level increases which result from estimated changes in salaries and benefits unit costs and the DRI index for rent. Custodial and maintenance services costs are also significantly impacted by growth in mail volume, facilities floor space (non-volume workload), and other programs mostly related to the maintenance of automation and other equipment.

Table 34
Significant Changes in Cost
Custodial and Maintenance Services
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level Changes	78,838	92,371	101,467
Mail Volume Effect	11,787	16,930	-1,961
Non-volume Workload Effects	40,829	53,579	27,854
Additional Workday Effect	-	4,293	-10,493
Cost Reductions	-8,084	-13,299	-1,673
Other Programs	22,870	31,994	29,358

j. Motor Vehicle Service (Segment 12)

Costs for this segment for the Base Year through the Test Year

are:

Table 35
Motor Vehicle Service Cost
(\$ 000)

	Amount	% Change
FY 1998	673,105	
FY 1999	682,500	1.4
FY 2000	706,752	3.6
Test Year before rates	724,307	2.5
Test Year after rates	722,705	2.3

Costs of this segment include the personnel costs of vehicle operating and maintenance personnel and their supervisors, vehicle operating supplies, and vehicle hire. As reflected in Table 36, Motor Vehicle Service costs are mainly impacted by cost level increases. Cost level increases result from estimated changes in salaries and benefits unit costs, and the forecasted DRI indices for supplies and materials and transportation services.

Table 36
Significant Changes in Cost
Motor Vehicle Service
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level Changes	5,901	23,382	15,086
Mail Volume Effect	1,117	1,893	379
Non-volume Workload Effects	2,647	2,764	2,822
Additional Workday Effect	-	1,055	-2,495
Other Programs	-136	-5,000	-

k. Miscellaneous Local Operations (Segment 13)

Costs for this segment for the Base Year through the Test Year

are:

Table 37
Miscellaneous Local Operations
(\$ 000)

	Amount	% Change
FY 1998	303,683	
FY 1999	304,885	0.4
FY 2000	314,707	3.2
Test Year before rates	327,993	4.2
Test Year after rates	327,831	4.2

This segment includes the personnel costs for the Mail Equipment Shops, and Facilities and Purchasing Service Centers. Also included are the cost of contract stations, rental allowance for CAG L postmasters, carfare, tolls and ferriage, field operations employee awards, and other miscellaneous expenses. As reflected in Table 38, Miscellaneous Local Operations are mainly impacted by cost level increases, non-volume workload, and other programs. Cost level increases result from estimated changes in salaries and benefits unit costs for the Mail Equipment Shops, Facilities Service Offices and Purchasing Service Centers, and general inflation on contract stations, carfare, tolls and ferriage, field operations employee awards, and other miscellaneous expenses. Non-volume workload changes relate to the impact of changes in the number of CAG L post offices and contract stations.

Table 38
Significant Changes in Cost
Miscellaneous Local Operations
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level Changes	6,354	8,481	10,042
Mail Volume Effect	150	212	12
Non-volume Workload Effects	-1,903	2,431	2,513
Additional Workday Effect	-	183	-433
Other Programs	-3,394	-1,485	990

l. Contractual Transportation of Mail (Segment 14)

Costs of this segment for the Base Year through the Test Year are:

Table 39
Contractual Transportation of Mail
(\$ 000)

	Amount	% Change
FY 1998	4,242,170	
FY 1999	4,279,550	0.9
FY 2000	4,559,054	6.5
Test Year before rates	4,755,068	4.3
Test Year after rates	4,619,553	1.3

This segment includes the cost of non-Postal Service contractual resources used to transport domestic mail between Postal Service facilities within the United States of America. Also included are the costs of transporting international mail between the United States and foreign countries, and the impact of fluctuations in international currency conversion exchange rates. As reflected in Table 40, Contractual Transportation costs are mainly impacted by cost level changes, mail volume workload, cost reductions, and other programs. Cost level changes result from the level of inflation forecasted by DRI. Cost reductions relate to Priority Mail Processing Centers, new efficiencies in Air System Contracts, Mail Transport Equipment Centers, Prior Year International Adjustments, parcel dropship savings and a challenge to absorb inflation. Other programs relate mainly to initiatives that improve the quality of service by adding new or upgraded transportation links. In Fiscal Years 1999 through the Test Year, final adjustments reflects mail mix adjustments as calculated by witnesses Robinson and Daniels.

Table 40
Significant Changes in Cost
Contractual Transportation of Mail
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level Changes	93,325	86,349	44,297
Mail Volume Effect	59,900	165,954	31,093
Additional Workday Effect	-	1,290	-2,981
Cost Reductions	-130,985	-79,225	-25,526
Other Programs	46,392	56,100	18,829
Final Adjustments	18,345	49,036	-5,213
Base Year Unit Cost Adjustment	-49,597	-	-

m. Building Occupancy (Segment 15)

Costs of this segment for the Base Year through the Test Year are:

Table 41
Building Occupancy Cost
(\$ 000)

	Amount	% Change
FY 1998	1,439,416	
FY 1999	1,506,978	4.7
FY 2000	1,563,730	3.8
Test Year before rates	1,633,711	4.5
Test Year after rates	1,633,711	4.5

Costs of this segment include the non-capital related non-personnel costs of occupying and maintaining Postal Service owned and rented facilities. Such costs include rent, heating fuel, building repairs and alterations, and utilities such as gas, electricity, water, and voice telephone communications. As reflected in Table 42, Building Occupancy costs are mainly impacted by cost level increases, non-volume workload, and other programs. Cost level increases result from estimated changes in general inflation as forecasted by DRI. Non-volume workload results from changes in rented facilities floor space. Other programs relate to changes in Field and HQ Administered Programs. Programs with changes that impact building occupancy include environmental programs, OSHA reform, Point of Service, Corporate Call Management and Associate Office Infrastructure. Segment 15 also receives a base adjustment for building projects expense. Major non-personnel cost related programs are included in Chapters V and VI of Library Reference I-127. A narrative description of these programs and the basis for the resource requirements is contained in Library Reference I-126.

Table 42
Significant Changes in Cost
Building Occupancy
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level Changes	8,980	40,974	41,760
Non-volume Workload Effects	27,200	32,351	24,761
Additional Workday Effect	-	1,511	-3,656
Other Programs	31,382	-18,084	7,116

n. Supplies and Services (Segment 16)

Costs for this segment for the Base Year through the Test Year are:

Table 43
Supplies and Services Cost
(\$ 000)

	Amount	% Change
FY 1998	3,221,612	
FY 1999	3,629,009	12.6
FY 2000	3,550,632	-2.2
Test Year before rates	3,814,183	7.4
Test Year after rates	3,807,497	7.2

Costs of this segment include the personnel cost of employees at the Label Printing Units and Material Distribution Centers. Also included are most of the supplies and contractual services utilized by the Postal Service, including printing and reproduction and postage stock. Supplies and services included in segments 14 and 18 are identified and are discussed therein. As reflected in Table 44, Supplies and Services costs are mainly impacted by cost level increases, mail volume workload, cost reductions and other programs. Cost level increases result from estimated changes in salaries and benefits unit costs for the Label Printing Units and Material Distribution Centers and general inflation on supplies and contractual services based on the DRI forecast for supplies and materials and paper and paper products. Cost reductions result from the opening of Mail Transportation Equipment Support Centers. Other programs relate to changes in Field and HQ Administered Programs. Programs with changes that impact Supplies and Services include Point of Service, Corporate Call Management, Associate Office Infrastructure, MEI Postal One, Stamp Manufacturing, Maintenance Technical Support Centers, Delivery Confirmation, Core Process Management, OWCP cost reductions, Nurses Coordinator Program, Advertising and Priority Mail Redesign. Cost Segment 16 also receives a base adjustment and reflects an inflation absorption challenge. Final adjustments reflect mail mix adjustments supplied by witness Robinson. Major non-personnel cost related programs are included in Chapters V and VI of Library Reference I-127. A narrative description of these

programs and the basis for the resource requirements is contained in Library Reference I-126.

Table 44
Significant Changes in Cost
Supplies and Services
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level Changes	-33,185	92,291	19,509
Mail Volume Effect	1,837	6,481	-3,016
Additional Workday Effect	-	503	-1,103
Cost Reductions	-	-	-
Other Programs	439,173	-183,822	235,204
Final Adjustments	-	13,245	-804

o. Research and Development (Segment 17)

Costs for this segment for the Base Year through the Test Year

are:

Table 45
Research and Development Cost
(\$ 000)

	Amount	% Change
FY 1998	77,137	
FY 1999	63,445	-17.7
FY 2000	45,207	-28.7
Test Year before rates	45,342	0.3
Test Year after rates	45,342	0.3

Costs of this segment include contracts for new and existing technology development and applications engineering. Personnel and related costs and other indirect costs are included in other cost segments. As reflected in Table 46, other programs impact Research and Development costs. A narrative description of these programs and the basis for the resource requirements is contained in Library Reference I-126.

Table 46
Significant Changes in Cost
Research and Development
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Other Programs	-13,692	-18,238	135

p. HQ & Area Administration & Corporatewide Personnel Costs
(Segment 18)

Costs for this segment for the Base Year through the Test Year
are:

Table 47
HQ & Area Administration & Corporatewide Personnel Costs
(\$ 000)

	Amount	% Change
FY 1998	4,575,721	
FY 1999	4,998,999	9.3
FY 2000	5,414,740	8.3
Test Year before rates	5,767,208	6.5
Test Year after rates	5,767,208	6.5

The costs of this segment include personnel costs for Headquarters and Headquarters related field service units, the money order function, Area Administration, and Law Enforcement. Also included are the Corporatewide personnel-related costs of annual leave repricing, Civil Service Retirement Unfunded Liability Principal, Workers' Compensation, Annuity Protection Program, Unemployment Compensation, Retiree Health Benefits, and CSRS Annuitant COLA principal expense. Remaining costs are supplies and services related to Headquarters activities and miscellaneous support costs. As reflected in Table 48, HQ & Area Administration & Corporatewide Personnel Costs are mainly impacted by cost level increases, and other programs. Amounts included as other programs are mainly the year-to-year change in Corporatewide personnel costs. With the exception of workers' compensation costs, the derivations of Corporatewide personnel costs are explained in Chapter VI of Library Reference I-127. The calculation of Workers' Compensation expense is further explained below.

Cost level increases result from estimated changes in salaries and

benefits unit costs for Headquarters and Headquarters related field service units, the money order function, Area Administration, and Law Enforcement, and general inflation on supplies and contractual services and other miscellaneous items related to Headquarters activities based on the DRI forecast for supplies and materials and the consumer price index. Cost Segment 18 also includes a FY 1999 base adjustment in supplies and services and includes an inflation absorption challenge in FY 2000.

The Postal Service is projecting an expense of \$764.3 million for workers' compensation costs in the Test Year. Comparable expenses for fiscal year 1998 were \$759.9 million. Estimated expenses for 1999 and 2000 are \$633.4 million and \$735.9 million, respectively. These amounts exclude all costs attributable to Post Office Department employees injured prior to the establishment of the Postal Service on July 1, 1971.

The Postal Service is subject to the Federal Employees' Compensation Act (FECA). Accordingly, the Office of Workers' Compensation Programs (OWCP) of the Department of Labor (DOL) manages the workers' compensation program for Postal Service claimants. The Postal Service is billed annually by the OWCP for reimbursement of all payments made to, or on behalf of, Postal Service workers' compensation claimants over the course of the prior OWCP "chargeback year" (July 1 through June 30). With its reimbursement billing, the OWCP also charges the Postal Service a pro-rata share of its estimated administrative costs.

The annual Postal Service workers' compensation expense is comprised of three components: (1) the net present value of the total estimated long-term liability for those claims which first become active during the current chargeback year, (2) adjustments to the estimate of the existing liability for claims that first became active in prior years, and (3) the pro-rata share of OWCP administrative expenses. Adjustments in the estimated liability result from changes in the number of active claims, cash outlays per claim, and the estimated future duration of claims. Separate liability estimations are made for (1) future costs arising from payments to be provided as compensation to injured postal claimants and their survivors ("compensation" claims) and (2) costs arising from future medical payments on behalf of injured postal claimants

1 ("medical" claims).

2 As noted above, Postal Service workers' compensation expense is
3 estimated to be \$764.3 million in the Test Year. This amount represents a continuation
4 of a trend towards moderation that has been seen from fiscal year 1994 forward. This
5 trend towards reductions in, and the leveling off of, this volatile expense component
6 reflects the effects of cost reduction efforts undertaken by Postal Service management
7 as a response to the increases in our workers' compensation expense seen in the
8 period of fiscal years 1988 through 1993. This trend also reflects actions undertaken by
9 OWCP. Efforts undertaken by the Postal Service include the National Workers'
10 Compensation Task Force, the Nurse Coordination Program, the Duplicate Medical Bill
11 Payment Project, contractor review of in-patient hospital expenses, and the Limited
12 Duty Task Force. DOL efforts include their nurse case manager program, Periodic Roll
13 management review teams, and quality case management initiatives. Taken together,
14 these efforts have mitigated the trend towards escalation in postal workers'
15 compensation expense.

16 In reporting its financial results, the Postal Service uses the
17 workers' compensation estimation model to determine the year-end liability. Changes
18 in that liability relative to the end of the prior fiscal year represent an expense
19 component. In its estimations, the model uses payment data provided on tape by the
20 OWCP. These data are processed at the Minneapolis Accounting Service Center to
21 prepare summary data by year of injury and severity of injury. These summary OWCP
22 data, including paid claims, average costs per claim, and a distribution of claimant age
23 at time of injury, are used as estimation model input.

24 Since Fiscal Year 1991, the Postal Service has used the "extended
25 age" estimation model. This model uses actual historic claimant transition ratios, or
26 derivations of the mathematical likelihood of claims being paid in the next year, to
27 estimate "surviving" claims that will be paid in future years. These transition ratios are
28 used to estimate surviving claims for the first twenty-five payment years. After twenty-
29 five years of payment, claims are deemed to be permanent and the numbers of
30 subsequent surviving claims are estimated using life annuity tables in conjunction with

1 the claimant age at time of injury distribution. Prior to the adoption of the "extended
2 age" model, the Postal Service used a model that assumed all claims became
3 permanent after eight payment years.

4 An important component of the workers' compensation liability and
5 expense estimation is the net discount factor used to determine the present value of
6 estimated future payments. For Fiscal Year 1998 the Postal Service used net discount
7 factors of 0.1% for medical claims and 3.0% for compensation claims. For Fiscal Year
8 1999, the Postal Service is using a discount rate of 1.4% for medical claims and a
9 discount rate of 3.0% for compensation claims. Adoption of the 1.4% discount rate for
10 medical claims resulted in a decrease of \$131 million in the Fiscal Year 1999
11 compensation and benefits expense. The analysis used placed emphasis on rates of
12 return for five to ten year notes rather than relying exclusively on rates of return for 90-
13 day t-bills. Postal management feels that this change in the net discount rate better
14 reflects the excess of rates of return on government debt instruments of comparable
15 terms relative to expected medical inflation.

16 The Postal Service conducts a review of the discount factors on an
17 ongoing basis to validate their appropriateness. Summaries of discount rate analyses
18 for medical and compensation claims over the last ten years are included as Exhibit
19 USPS-9S page 1 and 5. Our most recent historical and prospective discount rate
20 analyses for medical and compensation claims are included as Exhibits USPS 9S
21 pages 2 through 4 and 6 through 8. These analyses are based on data published in
22 Standard & Poor's DRI *The U.S. Economy*, and its predecessor publication,
23 DRI/McGraw-Hill's *Review of the U.S. Economy, Long-Range Focus*. In the opinion of
24 postal management, the discount rates currently used for medical and compensation
25 claims represent a reasonable difference between medical and societal inflation and the
26 rates of return on government debt instruments of terms comparable to the approximate
27 likely lives of medical and compensation claims. It is our opinion that the factors
28 currently used accurately reflect the value of the two individual liability components and
29 the value of the workers' compensation liability as a whole.

Table 48
Significant Changes in Cost
HQ & Area Administration & Corporatewide Personnel Costs
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level	13,893	34,078	37,710
Additional Workday Effect	-	24	-58
Other Programs (all other not itemized below)	13,913	1,770	-335
Unemployment Compensation	-17,561	9,600	2,800
Repricing Annual Leave	-13,508	35,294	-5,522
CSRS Unfunded Liability – Principal	71,286	111,424	60,159
Retiree Health Benefits	22,631	145,458	108,826
Annuitant COLA – Principal	31,122	79,593	74,910
Workers' Compensation	-126,511	102,516	28,390
HQ & Field Service Unit Pers. Cost	87,626	-	-
HQ Supplies and Services	116,030	-10,417	6,411
Misc. Support Cost	224,357	-93,599	39,177

q. **Equipment Maintenance & Management Training Support**
(Segment 19)

Costs of this segment for the Base Year through the Test Year are:

Table 49
Equipment Maintenance & Management Training Support
(\$ 000)

	Amount	% Change
FY 1998	36,090	
FY 1999	46,652	29.3
FY 2000	46,782	0.3
Test Year before rates	48,522	3.7
Test Year after rates	48,522	3.7

Included in this segment are the personnel costs for the Maintenance Technical Support Center and contractual services in support of equipment maintenance and management training. As reflected in Table 50, Equipment Maintenance & Management Training Support costs are mainly impacted by cost level increases and other programs. Cost level increases result from estimated changes in salaries and benefits unit costs for the Maintenance Technical Support Center and general inflation on contractual services based on the DRI forecast for the consumer price index. Other program changes relate to changes in Headquarters

Administered Programs and personnel resources at the Maintenance Technical Support Center.

Table 50
Significant Changes in Cost
Equipment Maintenance & Management Training Support
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level	674	1,213	1,018
Other Programs	9,888	-1,083	722

r. Depreciation, Write-Offs, Claims, and Interest (Segment 20)

Costs of this segment for the Base Year through the Test Year are:

Table 51
Depreciation, Write-Offs, Claims, and Interest
(\$ 000)

	Amount	% Change
FY 1998	3,533,151	
FY 1999	3,718,581	5.2
FY 2000	3,784,562	1.8
Test Year before rates	4,274,769	13.0
Test Year after rates	4,150,035	9.7

In addition to depreciation on equipment and buildings, this segment includes the following costs:

Domestic and foreign mail indemnities

Insurance and tort claims

Uncollectible receivables and other write-offs

Interest expense

As reflected in Table 52, Depreciation, Write-Offs, Claims, and Interest costs are mainly impacted by cost level increases, and other programs. Cost level increases result from estimated changes in general inflation on indemnities and claims and losses based on the DRI forecast for the consumer price index. Other programs consist mainly of estimated changes in depreciation, interest on debt, and interest on retirement liabilities. Detailed explanations of how these costs were estimated can be found in Chapters V and VI of Library Reference I-127.

Table 52
Significant Changes in Depreciation, Write-Offs, Claims, and Interest Cost
 (\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level	2,418	3,596	2,708
Mail Volume Effect	2,120	-1,365	-1,886
Depreciation Expense	190,246	68,290	290,133
Disposition of Property	22,870	-13,472	-7,734
Interest on Debt	-11,633	28,375	53,100
Interest on Retirement Liabilities	-20,406	-19,358	29,096

2. Provision for contingencies

Consistent with the statutory requirement, a provision for contingencies has been included in the Test Year. The amounts included are \$1.701 billion in the Test Year before rates and \$1.680 billion in the Test Year after rates. These amounts are equal to two and one-half percent of the total segment expense including final adjustments.

This is greater than the one and two percent amounts included in the previous two omnibus rate cases and less than the three and one-half percent included in the previous several cases. This mid-range contingency balances the Postal Service's desire to keep rate increases as low as possible with management's assessment of the degree of financial risk that currently faces the Postal Service. It also keeps the cumulative rate increases over the last two rate cycles below the cumulative rate of general inflation. This amount is judged as reasonable against unforeseen events and forecasting errors, given the magnitude of the Postal Service's operations and expenses. Recent financial performance has not been as favorable as in the mid 1990's. Specifically, in Fiscal Year 1999, the Postal Service fell significantly short of its revenue plan, with revenue more than \$600 million below plan. To achieve our net income plan for the year required significant cost cutting. This was in addition to funding greater than expected costs associated with the year 2000 computer transition and higher than planned labor costs.

The outlook for the future is even more challenging. Volume growth is below historical norms and projections of Fiscal Year 2000 require workyears be held at the Fiscal Year 1999 level while mail volume and the delivery network

1 continue to grow. In the Test Year after rates, a 1.5 percent workyear reduction is
2 projected. It will be a challenge to achieve this reduction. Many other uncertainties
3 exist and there also appear to be significant new pressures on salary and benefit cost
4 levels.

5 At the time of the last rate case, health benefit costs had been
6 decreasing. Health benefit cost increases have now returned to near double digit rates.
7 Also, the labor contracts which have become effective since the last rate filing are
8 significantly more costly than previous contracts.

9 When the Postal Service proposed a one percent contingency in
10 the last rate case, I indicated that this did not represent a permanent change in
11 management's judgment concerning the level of coverage generally necessary to
12 protect against unforeseen events and forecasting errors. I said, "[I]n different
13 circumstances in the future, it may very well be necessary to return to the higher levels
14 of contingency historically deemed prudent to provide the protection intended by the
15 provision for contingencies."¹⁷

16 In this case, we are moving closer to the historically normal
17 contingency of 3.5 percent. Further supporting this judgment is the increasingly
18 competitive environment in which the Postal Service operates. In particular, the
19 Internet appears to be making inroads into the Postal Service's transaction and
20 correspondence mail volume and may be diverting advertising and marketing revenues
21 from the Postal Service as well. Our more traditional competitors appear to be more
22 aggressively pursuing legislative limitations on the Postal Service's ability to operate in
23 a business-like manner. In addition, foreign postal administrations have been
24 expanding their operations into the United States. Finally, the earliest that rates can be
25 implemented is in January of the Test Year. The rates which include the 2.5 percent
26 contingency will not begin until the second quarter of the test year.

27 In deference to the Commission's desire to evaluate forecast errors
28 and their sources, I have included historical variance analyses similar to those included

¹⁷ Docket No. R97-1, witness Tayman USPS-T-9, page 38, revised 8/22/97.

1 in past filings. Pages 5 through 8 of my Exhibit 9J reflect the results of applying the four
2 sets of historical weighted average cost and revenue variances calculated on pages 1
3 through 4 of USPS EXHIBIT 9J, to Docket No. R2000-1 Test Year before and after
4 rates cost and revenue estimates. These produce hypothetical Test Year variances
5 ranging from -2.2 percent, or -\$1.5 billion to 2.3 percent, or \$1.5 billion.

6 I believe historical variance analyses should not be the basis for
7 determining the need for a contingency or its size. The Postal Service's financial
8 performance is under much greater pressure and is subject to substantially greater risks
9 than it was at the time of the last two omnibus rate cases. No matter what results an
10 historical variance analysis produces, it is not appropriate to use historical data to
11 determine the size of the contingency in lieu of management's judgment about the
12 future.

13 These calculations are included for informational purposes only.
14 To conclude from any historical variance analysis that a certain level of unforeseen
15 events will occur in the Test Year would be both irresponsible and illogical. No one can
16 predict the future, but the evidence clearly suggests that management's past judgment
17 regarding the size of the contingency required has been good.

18 I am convinced that variance analysis cannot be relied upon in a
19 vacuum as the basis for determining an appropriate contingency level. Variance
20 analysis can only show us what happened in the past, and should not be relied
21 upon exclusively to determine the prudent amount of cushion against unforeseen
22 events in the Test Year. Regardless of what history shows, management must be
23 allowed to assume its responsibility to determine the amount of contingency
24 most appropriate for achieving its goals.

25 It is also important to realize that the variance analyses reflected in
26 pages 5 through 8 of my Exhibit 9J attempt to show hypothetically how future costs and
27 revenues would behave if the individual segment variances experienced in the past
28 were to be precisely repeated in the Test Year.¹⁸ Since this does not allow for

¹⁸ General ledger account classifications were realigned in FY 1995. Material shifts were made among segments 16, 18, and 20. Weighted average historical percentage variances which are impacted by FY

1 management's judgment regarding the future and the influence of management's
2 subsequent actions, these types of analyses can only serve as information to be
3 considered by management in setting Postal Service policy. In consideration of the
4 Postal Service's goals and the risks involved, a contingency of two and one-half percent
5 has been used for the purpose of estimating this revenue requirement.

6 7 3. Recovery of Prior Years' Losses

8 The revenue requirement provides for the recovery of losses
9 incurred prior to the Test Year, in accordance with the break-even requirement of the
10 Postal Reorganization Act and previous Postal Rate Commission Recommended
11 Decisions. The Test Year revenue requirement includes \$268.3 million for the purpose
12 of recovering prior years' losses. This amount has been computed by summing the net
13 operating income (loss) for all periods from the inception of the Postal Service to the
14 beginning of the Test Year, deducting the funds received under Public Law No. 94- 421,
15 and amortizing the total amount over nine years. Computation of the amount included
16 in the revenue requirement for recovery of prior years' losses is shown in Table 53.

17 The nine-year amortization period is consistent with the
18 Commission's Recommended Decisions in Docket Nos. R80-1, R84-1, R87-1, R90-1,
19 R94-1 and R97-1. In management's judgment, it is a reasonable period: it is neither so
20 short as to unduly increase the revenue requirement nor so long as to unduly delay
21 recovery of losses.

22 Despite recent progress in restoring equity, the Postal Service's
23 equity position remains negative and below the capital contribution of the United States
24 Government. Historically, the Postal Service incurred net losses and experienced a
25 decline in equity over most rate cycles since Postal Reorganization. The period
26 following the Docket No. R80-1 rate change from 1981-1984, and, the last two rate
27 cycles have been the exceptions. Postal Service equity declined from \$1.7 billion,
28 when it began operations on July 1, 1971, to a negative \$6.0 billion at the end of FY
29 1994. The Postal Service has reversed this trend. Much equity has been restored over

1995 data were therefore based on the variances for these three segments in total.

1 the past two rate cycles. Our interim year projections also show that equity restoration
2 will continue up to the Test Year. As shown in my Exhibit 9L, which depicts historical
3 net incomes, losses, and equity, a fifth straight net income was realized in FY 1999,
4 and a net income of \$65.6 million is estimated for Fiscal Year 2000. This will improve
5 equity to a negative \$389 billion by the end of FY 2000.

6 Notwithstanding this progress, rising cost levels and weak revenue
7 growth will tend to undermine the Postal Service's equity position in Fiscal Year 2001.
8 In this regard, the Board of Governors of the Postal Service has affirmed the Postal
9 Service's commitment to restoring and maintaining equity over time. In Resolution No.
10 95-9, adopted on July 10, 1995, the Board issued a policy statement outlining a goal of
11 restoring equity between general rate increases cumulatively in relation to the amount
12 included for recovery of prior years' losses in the most recent rate case.¹⁹ In connection
13 with that goal, the resolution further stipulates that, whenever it is projected that
14 restoration of equity as specified might not be met, the Board and the Postal Service
15 will take action to reduce costs and/or increase revenues. A report on equity
16 restoration prepared by Price Waterhouse LLP for the Board of Governors provides
17 significant advice as background to the Board's policy Resolution.²⁰ The Report
18 recommended that "the Board of Governors adopt a Policy Statement affirming a
19 commitment to the goals of breaking even over time and taking actions to improve the
20 Postal Service's equity position."²¹

21 A Fiscal Year 2001 before rates Test Year with a projected net loss
22 of \$1.7 billion indicates the need for additional net revenue. As reflected in my Exhibit
23 9N, the Postal Service projects it will fall short of the Board of Governor's equity
24 restoration goal if rates are not increased during Fiscal Year 2001.

25 Although in the past two rate cycles significant equity was restored,
26 the Postal Service's current equity position is still negative. If there had been no
27 provision for recovery of prior years' losses, however, the erosion of equity would have

^{19/} Docket No. MC96-3, Library Reference SSR-112.

^{20/} Id.

^{21/} Id.

1 been even more severe. Without the provision for recovery of prior years' losses, the
 2 Postal Service would have no mechanism to ultimately meet the statutory requirement
 3 to break even.

4 I believe that the recovery of prior years' losses is essential to the
 5 ultimate, long-term improvement and maintenance of the Postal Service's financial
 6 condition. My judgment in this matter is further supported by the report on equity
 7 restoration prepared by Price Waterhouse LLP for the Board of Governors referred to
 8 above. The provision for recovery of prior years' losses proposed in this case is
 9 essential to continuing the Postal Service's progress in restoring equity and meeting the
 10 goals set by management and the Board of Governors.

11
 12 **Table 53**
 13 Computation of Prior Years' Loss Recovery
 14 (\$ 000)

Deficit from Operations since commencement on July 1, 1971 through September 30, 1998	3,843,327
Less: Actual net income in FY 1999	363,411
Less: Estimated net income in FY 2000	65,603
Less: Funds from Public Law No. 94-421	1,000,000
Total Recovery Required	2,414,313
Annual Increment (1/9)	268,257

15
 16 The prior years' loss recovery amount has declined from \$936
 17 million in Docket No. R94-1 to \$377 million in Docket No. R97-1 and \$268 million in this
 18 filing demonstrating that the prior years' loss recovery concept is working as intended.

19 20 IV. REVENUES BEFORE AND AFTER RATES

21 The three sources of postal revenues are operating revenue, appropriations, and
 22 interest income. Table 54 provides total revenues, actual and estimated through the
 23 Test Year:

Table 54
Total Revenues
(\$ 000)

FY 1998	60,116,759
FY 1999	62,755,251
FY 2000	64,817,360
Test Year before rates	66,328,401
Test Year after rates	69,116,820

A. Mail and Special Services Revenues²²

The mail classes, together with special and other services provided to the public, yield the largest portion of total operating revenues. The derivation of mail and special services revenue is explained in the testimony and workpapers of each of the individual pricing witnesses and summarized in the Testimony of witness Mayes (USPS-T-30).

Revenues for mail and special services through the Test Year are shown in the following table:

Table 55
Mail and Special Services Revenue
(\$ 000)

FY 1998	60,005,025
FY 1999	62,654,507
FY 2000	64,725,524
Test Year before rates	66,234,108
Test Year after rates	69,022,527

B. Appropriations²³

Prior to Fiscal Year 1983, the Postal Service received annual appropriations for public service costs. However, since Fiscal Year 1982, appropriation revenue has been for revenue forgone only. Currently, revenue forgone results from providing free mail for the blind and for overseas voters.

The appropriation revenue included in this filing consists of two

^{22/} Volumes by class of mail and the attendant revenues for FY's 1999, 2000, and the Test Year before and after rates are shown in my Exhibits 9C and 9D. The development of volume estimates is included in the testimonies and workpapers of witnesses Tolley, Thress, and Musgrave (USPS-T-6,7, & 8). After rates volume adjustments that result from market research or special studies are explained in the testimony of the appropriate pricing witness and are summarized in the testimony of witness Mayes (USPS T-30).

1 components. The first represents the estimated cost of providing free mail for the blind
2 and visually handicapped and overseas voting. As reflected in my Exhibit 9E, this
3 amounts to \$66.473 million for the test year. The second component is a \$0.620 million
4 adjustment relating to Fiscal Year 1998 to reconcile the appropriation received to the
5 amount that would have been authorized if based on the final audited mail volume.
6 (The FY 1998 appropriation revenue in my Exhibit 9E also includes a third component
7 of \$10 million relating to earned but unpaid revenue as higher rates were phased in for
8 certain previously subsidized categories of mail.)

9 During Fiscal Years 1991-1993, the amounts appropriated were not
10 sufficient to fund the services provided by the Postal Service. The Revenue Forgone
11 Reform Act of 1993, authorized the appropriation of \$1.218 billion in 42 annual \$29
12 million payments through Fiscal Year 2035, to reimburse the Postal Service for earned
13 but unpaid revenue forgone for Fiscal Year's 1991-1993, and for the estimated revenue
14 forgone during the period Fiscal Year 1994-1998. During FY 1994 -1998, the revenue
15 forgone appropriation was gradually phased out and reduced rates were gradually
16 increased until half of the amount necessary to provide full funding was provided by the
17 rates charged to users for all previously subsidized categories of mail except free mail
18 for the blind and absentee overseas voters, which remain fully subsidized. The
19 remaining one-half of the shortfall is passed on to all mail users through higher rates
20 that result from the rate-making process. Should any amount not be appropriated, the
21 Postal Service can adjust the rates of the subsidized mail categories enough to offset
22 the shortfall.

23 In recognition of the 42-year extended payment cycle of the Revenue
24 Forgone Reform Act of 1993, on September 30, 1993, the Postal Service recorded as a
25 receivable the present value of earned and unpaid revenue forgone appropriations for
26 FY 1991-1993. During FY 1994-1998 additional amounts were added to this
27 receivable to recognize earned but unpaid revenue as the higher rates were phased-in
28 for certain categories of subsidized mail. As each of the annual \$29 million

²³ My Exhibit 9E shows the components of appropriation revenue for the relevant years.

appropriation payments is received, a portion is recorded as imputed interest income (because the account receivable was recorded at a present value discounted at 7%) and the remainder is recorded as a partial collection of the account receivable.

Additional details regarding the calculation of these amounts can be found in Chapter XIb and XIc of LR I-127.

The following table shows revenue forgone appropriation revenue through the Test Year:

Table 56
Appropriation Revenue
(\$ 000)

FY 1998	67,274
FY 1999	71,195
FY 2000	64,436
Test Year before rates	67,093
Test Year after rates	67,093

C. Interest Income

Interest income has two components: investment income and imputed interest.

Investment income earned by the Postal Service in any period depends upon prevailing short-term interest rates and the amount of cash invested. Because the Postal Service has adopted a zero cash balance goal as one of its financial management policies, minimal investment income is projected through the test year.

Imputed interest results from the calculation at 7 percent interest of the present value of future payments related to the Revenue Forgone Act of 1993. The calculation of these amounts is discussed above under appropriations and explained in detail in Chapter XIc of Library Reference I-127.

The following table shows Interest income for Fiscal Year 1998 through the Test Year:

Table 57
Interest Income ²⁴
(\$ 000)

Period	Investment Income	Imputed Interest	Total Interest Income
FY 1998	17,660	26,800	44,460
FY 1999	2,949	26,600	29,549
FY 2000	900	26,500	27,400
Test Year before rates	900	26,300	27,200
Test Year after rates	900	26,300	27,200

V. TEST YEAR REVENUE DEFICIENCY

The Postal Service's total revenue deficiency in the Test Year at present rates would be approximately \$3.688 billion. Changes in postal rates and fees proposed in this filing will eliminate the deficiency as illustrated below:

Table 58
Test Year Revenue Deficiency ²⁵
(\$ 000)

Present Rates	Test Year
Total Revenue Requirement ²⁶	70,015,977
Less: Total Revenue ²⁷	66,328,401
Total Revenue Deficiency	3,687,576
Proposed Rates	
Increase in Revenue	2,788,419
Decrease in Revenue Requirement	877,320
Change in Revenue Deficiency	3,665,739
Revenue Surplus (Deficiency)	(21, 837)

The financial impact of present and proposed rates in the Test Year, as represented in the equity section of the balance sheet, is demonstrated in Table 59.

^{24/} Estimated cash flows for FY 1999, FY 2000 and the Test Year before and after rates, along with projected investment income, are shown in my Exhibits 9F and 9G.

^{25/} An analysis of changes in income and expenses comparing before and after rates is included in my Exhibit 9H.

^{26/} From Table 15, the Test Year revenue requirement before and after rates reflects, total accrued cost segment expense, final adjustments, contingency and recovery of prior years' losses.

^{27/} From Table 54, revenues for the Test Year at present rates.

Table 59
Analysis of Changes in Equity ²⁸
(\$ 000)

	FY 1999	FY 2000	Test Year Before Rates	Test Year After Rates
Beginning Balance	(809,403)	(445,992)	(380,389)	(380,389)
Net Income/(Loss)	363,411	65,603	(3,419,319)	246,419
Ending Balance	(445,992)	(380,389)	(3,800,158)	(133,970)

^{28/} The contingency is included and the prior year loss recovery is excluded from test year costs when determining net income (loss) and equity.

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STATEMENTS OF REVENUE AND EXPENSE
(\$ IN MILLIONS)

USPS 9A

LINE NUMBER		FY 1998 ACTUAL	FY 1999 ESTIMATE 1/	FY 2000 ESTIMATE	TEST YEAR B/R	TEST YEAR A/R
	REVENUES					
1	OPERATING REVENUE	60,006.0	62,654.6	64,726.6	66,234.1	69,022.6
2	APPROPRIATIONS	67.3	71.2	64.4	67.1	67.1
3	INTEREST INCOME	44.6	29.6	27.4	27.2	27.2
4	TOTAL REVENUES	60,116.8	62,755.3	64,817.4	66,328.4	69,116.820
	OPERATING EXPENSES					
5	POSTMASTERS	1,710.4	1,767.1	1,803.2	1,876.3	1,869.4
6	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,612.4	3,608.8	3,666.6	3,822.0	3,782.6
7	CLERKS & MAILHANDERS	17,848.1	18,318.8	19,011.2	19,442.6	19,118.1
8	CLERKS, CAG K POST OFFICES	8.4	8.8	9.3	9.7	9.6
9	CITY DELIVERY CARRIERS	12,078.2	12,870.2	12,989.3	13,787.1	13,638.1
10	VEHICLE SERVICE DRIVERS	467.3	489.8	497.6	523.0	511.9
11	SPECIAL DELIVERY MESSENGERS	71.1	0.0	0.0	0.0	0.0
12	RURAL CARRIERS	3,878.2	3,887.2	4,163.9	4,399.9	4,366.6
13	CUSTODIAL & MAINTENANCE SERVICES	2,304.3	2,449.5	2,836.4	2,791.9	2,780.0
14	MOTOR VEHICLE SERVICES	673.1	682.6	706.8	724.3	722.7
15	MISCELLANEOUS LOCAL OPERATIONS	303.7	304.9	314.7	328.0	327.8
16	CONTRACTURAL TRANSPORTATION OF MAIL	4,242.2	4,279.6	4,669.1	4,766.1	4,819.6
17	BUILDING OCCUPANCY	1,439.4	1,607.0	1,663.7	1,633.7	1,633.7
18	RESEARCH & DEVELOPMENT	77.1	63.4	46.2	46.3	46.3
19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	38.1	46.7	48.8	48.6	48.6
20	SUPPLIES & SERVICES	3,221.6	3,629.0	3,660.6	3,814.2	3,807.6
21	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	4,676.7	4,999.0	5,414.7	5,787.2	5,787.2
22	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	3,633.2	3,718.6	3,784.6	4,274.8	4,160.0
23	SUBTOTAL SEGMENTS 16,18, AND 20	11,330.6	12,346.6	12,749.9	13,866.2	13,724.7
24	FINAL ADJUSTMENTS		0.0	0.3	3.0	2.8
25	TOTAL ACCRUED COSTS	69,666.6	62,400.4	64,761.8	68,046.6	67,190.6
	NET INCOME (LOSS)	650.3	364.9	66.6	(1,718.2)	1,926.2
26	CONTINGENCY				1,701.2	1,679.8
	NET INCOME (LOSS) WITH CONTINGENCY				(3,419.3)	246.4
27	RECOVERY OF PRIOR YEAR LOSSES				268.3	268.3
28	TOTAL REVENUE REQUIREMENT				70,016.0	69,136.7
29	NET SURPLUS (DEFICIENCY)				(3,687.6)	(21.8)

NOTE: NUMBERS MAY NOT ADD DUE TO ROUNDING

1/ Actual revenue and estimated accrued costs. Actual accrued costs and net income were \$62,391.8 and \$363.4 respectively.

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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 99 (PREMIX)
SUMMARY TABLE
(\$ 000)

Exhibit
USPS 9B
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*****
*          FY98BY   COST   MAIL NONVOLUME ADDITIONAL   OTHER   FY99 *
*          COSTS   LEVEL   VOLUME WORKLOAD WORKDAY   COST   PROGRAMS PREMIX *
*          EFFECT   EFFECT   EFFECT   REDUCTIONS
*****
*
C/S-1      0251 1710409   36903   5807   4453               1757572
C/S-2      0252 3512445   67839   30063   2119               13917 3626383
C/S-3      0253 17717255  685308  240396   686             -407770 209083 18444958
C/S-4      0254   8359     370     29               8758
C/S-6      0256 3815816   136093  70995             -123368 44837 3944373
C/S-7      0257 8260365   294618  55944   28461          109085 8748473
C/S-8      0258 457268    15646   5446               478360
C/S-9      0259
C/S-10     0260 3678215   101635  38391   56157          20631 3895029
C/S-11     0261 2304302   78838   11787   40829          -8084 22870 2450542
C/S-12     0262 673105    5901    1117    2647             -136 682634
C/S-13     0263 303683    6354    150   -1903            -3394 304890
C/S-14     0264 4242170   93325   59900             -130985 46392 4310802
C/S-15     0265 1439416    8980           27200          31382 1506978
C/S-16     0266 3221612  -33185    1837          439173 3629437
C/S-17     0267 77137           -13692    63445
C/S-18     0268 4575721   13893          409385 4998999
C/S-19     0269 36090     674           9888 46652
C/S-20     0270 3533151    2418    2120          180931 3718620
TOTAL      0271 59566519  1515610  523982  160649        -670207 1520352 62616905
*****
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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 99 (PREMIX-SPA)

SUMMARY TABLE

(\$ 000)

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*****
*          FY99      COST      MAIL NONVOLUME ADDITIONAL INT'L      OTHER      FY99      *
*          PREADJ    LEVEL     VOLUME WORKLOAD WORKDAY    COST    PROGRAMS  PREMIX  *
*          PREMIX                                EFFECT  EFFECT    EFFECT    ADJ      SPA      *
*****

*
C/S-1          0251  1757572                -495                                1757077
C/S-2          0252  3626383                -1976                                3624407
C/S-3          0253  18444958                -22080                               18422878
C/S-4          0254    8758                                8758
C/S-6          0256  3944373                -853                                3943520
C/S-7          0257  8748473                -811                                8747662
C/S-8          0258  478360                 -274                                478086
C/S-9          0259
C/S-10         0260  3895029                -208                                3894821
C/S-11         0261  2450542                -844                                2449698
C/S-12         0262  682634                 -134                                682500
C/S-13         0263  304890                  -5                                 304885
C/S-14         0264  4310802                -49597                               4261205
C/S-15         0265  1506978                                1506978
C/S-16         0266  3629437                -428                                3629009
C/S-17         0267    63445                                63445
C/S-18         0268  4998999                                4998999
C/S-19         0269    46652                                46652
C/S-20         0270  3718620                 -39                                3718581
TOTAL          0271  62616905                -77744                               62539161
```

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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 99 (MIXADJ)
SUMMARY TABLE
(\$ 000)

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	FY99	COST	MAIL	NONVOLUME	ADDITIONAL	OTHER	FY99
	PREMIX	LEVEL	VOLUME	WORKLOAD	WORKDAY	EMPLOYEE PROGRAMS	MIXADJ
	SPA		EFFECT	EFFECT	EFFECT	MIX ADJ.	
C/S-1	0251	1757077					1757077
C/S-2	0252	3624407					3624407
C/S-3	0253	18422878				39578	18462456
C/S-4	0254	8758					8758
C/S-6	0256	3943520				536	3944056
C/S-7	0257	8747662				1184	8748846
C/S-8	0258	478086					478086
C/S-9	0259						
C/S-10	0260	3894821					3894821
C/S-11	0261	2449698					2449698
C/S-12	0262	682500					682500
C/S-13	0263	304885					304885
C/S-14	0264	4261205					4261205
C/S-15	0265	1506978					1506978
C/S-16	0266	3629009					3629009
C/S-17	0267	63445					63445
C/S-18	0268	4998999					4998999
C/S-19	0269	46652					46652
C/S-20	0270	3718581					3718581
TOTAL	0271	62539161				41298	62580459

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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 00 (PREMIX)
SUMMARY TABLE
(\$ 000)

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*****
*          FY99RCC  COST      MAIL NONVOLUME ADDITIONAL      OTHER      FY00  *
*          COSTS    LEVEL    VOLUME WORKLOAD  WORKDAY    COST      PROGRAMS  PREMIX *
*          EFFECT   EFFECT   EFFECT  REDUCTIONS                                     *
*****
*
C/S-1      0251 1757077    34878    8410    -628    3224          1802961
C/S-2      0252 3624407    64826    44648    2211    3400    -45906    -8493 3685093
C/S-3      0253 18422878   761133   351894    765    9246   -441793   59839 19163962
C/S-4      0254   8758      424      82          7          9271
C/S-6      0256 3943520    149157   92815          1010   -311466    3875036
C/S-7      0257 8747662    330877   88969    30092   12852   -88888    13876 9135440
C/S-8      0258 478086    18201    10818          439          507544
C/S-9      0259
C/S-10     0260 3894821    156751   51519    60369    5271          4168731
C/S-11     0261 2449698    92371    16930    53579    4293   -13299    31994 2635566
C/S-12     0262 682500    23382    1893    2764    1055          -5000 706594
C/S-13     0263 304885    8481     212    2431    183          -1485 314707
C/S-14     0264 4261205    86349   165954          1290   -79225    56100 4491673
C/S-15     0265 1506978    40974          32351    1511          -18084 1563730
C/S-16     0266 3629009    92291     6481          503          -183822 3544462
C/S-17     0267   63445          -18238    45207
C/S-18     0268 4998999    34078          24          381639 5414740
C/S-19     0269   46652    1213          -1083    46782
C/S-20     0270 3718581    3596    -1365          63750 3784562
TOTAL      0271 62539161   1898982   839260   183934   44308   -980577   370993 64896061
*****
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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 00 (MIXADJ)
SUMMARY TABLE
(\$ 000)

Exhibit
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* FY00 COST MAIL NONVOLUME ADDITIONAL OTHER FY00 *
* PREMIX LEVEL VOLUME WORKLOAD WORKDAY EMPLOYEE PROGRAMS MIXADJ *
* EFFECT EFFECT EFFECT MIX ADJ. *

*

C/S-1	0251	1802961					1802961
C/S-2	0252	3685093					3685093
C/S-3	0253	19163962				30437	19194399
C/S-4	0254	9271					9271
C/S-6	0256	3875036				1019	3876055
C/S-7	0257	9135440				2407	9137847
C/S-8	0258	507544					507544
C/S-9	0259						
C/S-10	0260	4168731					4168731
C/S-11	0261	2635566					2635566
C/S-12	0262	706594					706594
C/S-13	0263	314707					314707
C/S-14	0264	4491673					4491673
C/S-15	0265	1563730					1563730
C/S-16	0266	3544462					3544462
C/S-17	0267	45207					45207
C/S-18	0268	5414740					5414740
C/S-19	0269	46782					46782
C/S-20	0270	3784562					3784562
TOTAL	0271	64896061				33863	64929924

DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 2001 (CURRENT PREMIX)
SUMMARY TABLE
(\$ 000)

		FY00	COST	MAIL	NONVOLUME	ADDITIONAL		OTHER	FY01
		COSTS	LEVEL	VOLUME	WORKLOAD	WORKDAY	COST	PROGRAMS	CURRENT*
				EFFECT	EFFECT	EFFECT	REDUCTIONS		PREMIX *
C/S-1	0251	1802961	73615	7687	-733	-7779			1875751
C/S-2	0252	3685093	135486	33117	2226	-8058			3847864
C/S-3	0253	19163962	763832	249962	658	-21951	-475374	9808	19690897
C/S-4	0254	9271	433	44		-18			9730
C/S-6	0256	3875036	234171	60784		-2355	-121443		4046193
C/S-7	0257	9135440	552062	85019	31925	-31465	-29931	19797	9762847
C/S-8	0258	507544	18769	12601		-1056			537858
C/S-9	0259								
C/S-10	0260	4168731	154882	42634	64550	-13010			4417787
C/S-11	0261	2635566	101467	9838	27854	-10493	-1673	29358	2791917
C/S-12	0262	706594	15086	1955	2827	-2495			723967
C/S-13	0263	314707	10042	174	2513	-433		990	327993
C/S-14	0264	4491673	44297	151093		-2981	-25526	18829	4677385
C/S-15	0265	1563730	41760		24761	-3656		7116	1633711
C/S-16	0266	3544462	19509	2866		-1103		235204	3800938
C/S-17	0267	45207						135	45342
C/S-18	0268	5414740	37710			-58		314816	5767208
C/S-19	0269	46782	1018					722	48522
C/S-20	0270	3784562	2708	-1152				488651	4274769
TOTAL	0271	64896061	2206847	656622	156581	-106911	-653947	1125426	68280679

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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 01 CURRENT (W/MIX)
SUMMARY TABLE
(\$ 000)

Exhibit
USPS 9B
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*****
*          FY01    COST    MAIL  NONVOLUME  ADDITIONAL    OTHER    FY01  *
*          CURRENT  LEVEL   VOLUME  WORKLOAD  WORKDAY   EMPLOYEE  PROGRAMS  CURRENT *
*          PREMIX                EFFECT   EFFECT   EFFECT    MIX ADJ.    W/MIX  *
*****
```

* C/S-1	0251	1875751						1875751
C/S-2	0252	3847864						3847864
C/S-3	0253	19690897				-6148		19684749
C/S-4	0254	9730						9730
C/S-6	0256	4046193				1965		4048158
C/S-7	0257	9762847				4743		9767590
C/S-8	0258	537858						537858
C/S-9	0259							
C/S-10	0260	4417787						4417787
C/S-11	0261	2791917						2791917
C/S-12	0262	723967						723967
C/S-13	0263	327993						327993
C/S-14	0264	4677385						4677385
C/S-15	0265	1633711						1633711
C/S-16	0266	3800938						3800938
C/S-17	0267	45342						45342
C/S-18	0268	5767208						5767208
C/S-19	0269	48522						48522
C/S-20	0270	4274769						4274769
TOTAL	0271	68280679				560		68281239

DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY 01 PROPOSED (PREMIX)
SUMMARY TABLE
(\$ 000)

	FY00	COST	MAIL	NONVOLUME	ADDITIONAL		OTHER	FY01
	COSTS	LEVEL	VOLUME	WORKLOAD	WORKDAY	COST	PROGRAMS	PROPOSED*
			EFFECT	EFFECT	EFFECT	REDUCTIONS		PREMIX *
C/S-1	0251 1802961	73615	825	-729	-7779			1868893
C/S-2	0252 3685093	135486	-4291	2222	-8058			3810452
C/S-3	0253 19163962	763832	-56578	658	-21951	-475374	9808	19384357
C/S-4	0254 9271	433	-47		-18			9639
C/S-6	0256 3875036	234171	-6439		-2355	-121443		3978970
C/S-7	0257 9135440	552062	8712	31884	-31465	-29931	19797	9686499
C/S-8	0258 507544	18769	3961		-1056			529218
C/S-9	0259							
C/S-10	0260 4168731	154882	-959	64550	-13010			4374194
C/S-11	0261 2635566	101467	-1961	27854	-10493	-1673	29358	2780118
C/S-12	0262 706594	15086	379	2822	-2495			722386
C/S-13	0263 314707	10042	12	2513	-433		990	327831
C/S-14	0264 4491673	44297	31093		-2981	-25526	18829	4557385
C/S-15	0265 1563730	41760		24761	-3656		7116	1633711
C/S-16	0266 3544462	19509	-3016		-1103		235204	3795056
C/S-17	0267 45207						135	45342
C/S-18	0268 5414740	37710			-58		314816	5767208
C/S-19	0269 46782	1018					722	48522
C/S-20	0270 3784562	2708	-1886				364651	4150035
TOTAL	0271 64896061	2206847	-30195	156535	-106911	-653947	1001426	67469816

USPS 10-4730
NISDC
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DEVELOPMENT OF COSTS BY SEGMENTS AND COMPONENTS - FY01 PROPOSED (W/MIX)
SUMMARY TABLE
(\$ 000)

Exhibit
USPS 9B
Page 9 of 9

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*****
*                FY01    COST    MAIL  NONVOLUME  ADDITIONAL    OTHER    FY01  *
*                PROPOSED  LEVEL   VOLUME  WORKLOAD  WORKDAY   EMPLOYEE  PROGRAMS  PROPOSED*
*                PREMIX    EFFECT   EFFECT   EFFECT    MIX ADJ.   MIXADJ  *
*****
```

* C/S-1	0251	1868893						1868893
C/S-2	0252	3810452						3810452
C/S-3	0253	19384357				-9109		19375248
C/S-4	0254	9639						9639
C/S-6	0256	3978970				1878		3980848
C/S-7	0257	9686499				4573		9691072
C/S-8	0258	529218						529218
C/S-9	0259							
C/S-10	0260	4374194						4374194
C/S-11	0261	2780118						2780118
C/S-12	0262	722386						722386
C/S-13	0263	327831						327831
C/S-14	0264	4557385						4557385
C/S-15	0265	1633711						1633711
C/S-16	0266	3795056						3795056
C/S-17	0267	45342						45342
C/S-18	0268	5767208						5767208
C/S-19	0269	48522						48522
C/S-20	0270	4150035						4150035
TOTAL	0271	67469816				-2658		67467158

**Mail Volume FY 1998 - Test Year
(Millions)**

USPS 9C

Line No.	Class	1998 Actual 1/	1999 Actual 1/	2000 Estimate 2/	Test Year Before Rates 2/	Test Year After Rates 2/
1	First Class	100,434	101,936	104,236	105,847	105,298
2	Priority	1,174	1,189	1,218	1,331	1,250
3	Express Mail	66	69	70	72	72
4	Mailgrams	4	4	4	3	3
5	Periodicals	10,317	10,274	10,397	10,429	10,321
6	Standard Mail (A)	82,508	85,662	88,578	90,832	88,104
7	Standard Mail (B)	1,023	1,043	1,092	1,158	1,133
8	U.S. Postal Service	380	382	359	349	349
9	Free for the Blind	53	53	55	57	57
10	International	944	963	1,049	1,067	1,032
11	Total Mail Volume	196,905	201,576	207,058	211,144	207,619

1/ FY 1999 Revenue, Pieces, and Weights Report dated 11/19/99

2/ Workpapers off T. Thress (USPS-T-7) and G. Musgrave (USPS-T-8).

Mail and Special Services Revenue
Fiscal Year 1998 - Test Year
(Dollars in Millions)

USPS 9D

Line No.	Class	1998 Actual 1/	1999 Actual 1/	2000 Estimate 2/	Test Year Before Rates 2/	Test Year After Rates 2/
1	First Class	33,861	34,933	35,753	36,172	37,284
2	Priority	4,187	4,533	4,741	5,230	5,542
3	Express Mail	855	942	994	1,019	1,069
4	Mailgrams	2	2	1	1	1
5	Periodicals	2,072	2,115	2,229	2,243	2,499
6	Standard Mail (A)	13,702	14,436	15,035	15,381	16,040
7	Standard Mail (B)	1,754	1,828	1,959	2,067	2,152
8	U.S.Postal Service	0	0	0	0	0
9	Free for the Blind	0	0	0	0	0
10	International	1,600	1,628	1,690	1,741	1,748
11	Total Mail Revenue	58,033	60,418	62,404	63,854	66,334
12	Special Services	1,672	1,795	1,896	1,996	2,304
13	Other Income	344	472	453	411	411
14	Appropriation	67	71	64	67	67
15	Total Operating Revenue	60,117	62,755	64,817	66,328	69,117

1/ FY 1999 RPW Report dated 11/19/99 and FY 99 USPS Financial Statements.

2/ Workpapers of Virginia Mayes (USPS-T-32).

APPROPRIATION REVENUE

FY 1998 – TEST YEAR

(\$ in thousands)

	FY 1998 Actual	FY 1999 Actual	FY 2000 Estimate	Test Year - Estimates	
				Before Rates	After Rates
Public Service Costs	0	0	0	0	0
Revenue Forgone on Free and Reduced-rate Mail:					
Free for the Blind and Overseas Voters 1/	55,296	68,710	70,880	66,473	66,473
Reconciliation Adjustment 1/	1,978	2,485	(6,444)	620	620
Second, Third & Fourth Class 2/	10,000	0	0	0	0
Total Revenue Forgone	67,274	71,195	64,436	67,093	67,093
Total Appropriation Revenue	67,274	71,195	64,436	67,093	67,093

1/ Estimated values reflect amounts requested in FY 2001 President's Budget.

2/ Reflects the discounted present value of revenue earned but unpaid in FY 98. Higher rates pursuant to the Revenue Forgone Reform Act of 1993 were phased in during the period FY 94 to FY 98.

Imputed interest resulting from the \$29 million annual revenue forgone appropriation is included with interest income.

U.S. Postal Service Statement of Cash Flows FY 1998 - FY 2001 (dollars in millions)					
	1998	1999	2000	2001 BR	2001 AR
Net Income (Loss)	550	363	66	(3,419)	246
Adjustments to reconcile net income to to cash provided by operating activities:					
Depreciation and amortization	1,579	1,795	1,864	2,154	2,154
All other differences (net)	318	754	292	1,307	1,465
Net cash provided by operating activities	2,447	2,912	2,221	42	3,866
Cash flows from investing activities:					
Purchase of property and equipment	(3,055)	(3,917)	(3,564)	(3,746)	(3,746)
All other (net)	51	129	0	0	0
Net cash provided by (used in) investing activities	(3,004)	(3,788)	(3,564)	(3,746)	(3,746)
Net cash provided by (used in) financing activities	549	496	1,343	3,704	(120)
Net (decrease) increase in cash	(8)	(380)	0	(0)	0

Source: USPS LR I-127, Chapter VIb.

Investment Income
(Amounts in dollars)

	Principal						
	Item	Amount	Item	Rate (5)	FY 2000	FY 2001 BR	FY 2001 AR
Minority CD Program	(1)	6,700,000	(5)	5.5000%	368,500	368,500	368,500
Treasury Security 9.125%, 5/15/2009	(2)	100,000	(6)	9.1250%	9,125	9,125	9,125
Postal Service Fund @ Fiscal Year End	(3)	808,900,000	(5)	5.5000%	121,889	121,889	121,889
Postal Service Fund - one day per A/P	(4)	200,000,000	(5)	5.5000%	391,781	391,781	391,781
Total Investment Income					891,295	891,295	891,295
Rounding					\$900,000	\$900,000	\$900,000

- (1) Minority Bank CD Program - Balance as of A/P 13 from Auditor Balance Sheet
- (2) Postal Service Fund investment held as collateral for Real Estate
- (3) Postal Service Fund Balance as of 9/30/99 - assumed to be the same at the end of each fiscal year
- (4) Assume one overnight investment per A/P at the end of each A/P
- (5) The rate is assumed to be the same rate as the short term borrowing rate.
- (6) The rate of the treasury Security was fixed at the time of acquisition @ 9.125%, maturity 5/15/2009

For several years now the USPS has reduced the amount of cash kept on hand for liquidity purposes. Excess cash from operations is used to repay debt outstanding. This keeps both cash and debt at minimum levels. By borrowing only when necessary, average debt outstanding and net interest expense are minimized. Investment income should be minimal and should not change much from year to year, regardless of changes in net income.

REVENUE REQUIREMENT SUMMARY
ANALYSIS OF INCOME AND EXPENSES
(\$ 000)

Line No.	Prefiling (Before Rates)	Test Year Estimate
1	Revenue	
2	Mail and Special Services	66,234,108
3	Appropriations	67,093
4	Interest Income	27,200
5	Total	66,328,401
6	Total Revenue Requirement	70,015,977
7	Net Surplus (Deficiency)	(3,687,576)
	<u>With Proposed Rates</u>	
8	Revenues and Operating Receipts:	
9	Mail and Special Services	69,022,527
10	Appropriations	67,093
11	Interest Income	27,200
12	Total	69,116,820
13	Total Revenue Requirement	69,138,657
14	Net Surplus (Deficiency)	(21,837)
	<u>Change from Prefiling to Proposed Rates</u>	
15	Changes in Revenue:	
16	Revenue increase from proposed rates (with volume at before rate levels)	3,605,923
17	Increase in special services revenue	308,708
18	Increase in interest income	0
19	Subtotal	3,914,631
20	Revenue loss from decrease in volume	(1,126,212)
21	Subtotal	2,788,419
22	Increased revenue from revenue forgone appropriations	0
23	Increase in revenue	2,788,419
	Changes in Costs:	
23	Decrease in costs from lower mail volume	(686,817)
24	Decrease in final adjustments	(41,841)
25	Decrease in interest on debt	(124,000)
26	Decrease due to increase in workyear mix adjustment	(3,218)
27	Decrease in provision for contingencies	(21,398)
28	All other changes	(46)
29	Decrease in costs	(877,320)
30	Net change in revenues and costs	3,665,739
31	Net Surplus (Deficiency)	(21,837)

BEFORE RATES
COMPARATIVE STATEMENTS OF REVENUE AND EXPENSE
DOCKET R97-1 TEST YEAR FROM OCTOBER 1, 1997, TO SEPTEMBER 30, 1998
(\$ MILLIONS)

		R97-1 TEST YEAR FILING 1/	ACTUAL /2	ACTUAL OVER OR (UNDER)
A.	REVENUE AND OPERATING RECEIPTS			
1	OPERATING REVENUE	59,327	60,005	678
2	APPROPRIATIONS	67	67	(0)
3	INTEREST INCOME	34	44	11
	TOTAL REVENUES & OPERATING RECEIPTS	59,428	60,117	689
B.	REVENUE REQUIREMENT			
1	POSTMASTERS	1,715	1,710	(4)
2	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,515	3,512	(2)
3	CLERKS & MAILHANDERS	17,708	17,646	(61)
4	CLERKS, CAG K POST OFFICES	10	8	(2)
6&7	CITY DELIVERY CARRIERS	11,988	12,076	89
8	VEHICLE SERVICE DRIVERS	453	457	5
9	SPECIAL DELIVERY MESSENGERS	115	71	(44)
10	RURAL CARRIERS	3,731	3,678	(52)
11	CUSTODIAL & MAINTENANCE SERVICES	2,311	2,304	(6)
12	MOTOR VEHICLE SERVICES	649	673	25
13	MISCELLANEOUS LOCAL OPERATIONS	292	304	12
14	CONTRACTURAL TRANSPORTATION OF MAIL	4,365	4,242	(123)
15	BUILDING OCCUPANCY	1,541	1,439	(101)
17	RESEARCH & DEVELOPMENT	57	77	20
19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	39	36	(3)
16	SUPPLIES & SERVICES	3,530	3,222	(308)
18	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	4,596	4,576	(20)
20	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	4,156	3,533	(622)
21	SUBTOTAL - 16, 18, 20 3/	12,281	11,331	(951)
22	FINAL ADJUSTMENTS	53		
	TOTAL ACCRUED COSTS	60,820	59,567	(1,253)
23	CONTINGENCY	608		(608)
	TOTAL COSTS	61,428	59,567	(1,861)
24	RECOVERY OF PRIOR YEAR LOSSES	447		
C.	TOTAL REVENUE REQUIREMENT	61,875		
	REVENUE DEFICIENCY	(2,447)		
	NET INCOME (LOSS) WITH CONTINGENCY	(2,000)	550	2,550
	NET INCOME (LOSS) WITHOUT CONTINGENCY	(1,392)	550	1,942

1/ Testimony of William P. Tayman, Docket No. R97-1, USPS 9A, as Revised 8/22/97. Estimates reflect Test Year (FY 98) Before Rates.

2/ From Exhibit 9J, Page 1 of 8. New rates were not implemented until January 10, 1999.

AFTER RATES
COMPARATIVE STATEMENTS OF REVENUE AND EXPENSE
DOCKET R97-1 TEST YEAR FROM OCTOBER 1, 1997, TO SEPTEMBER 30, 1998
(\$ MILLIONS)

A.	REVENUE AND OPERATING RECEIPTS		R97-1	ACTUAL /2	ACTUAL OVER OR (UNDER)
			TEST YEAR FLING 1/		
	1	OPERATING REVENUE	61,530	60,005	(1,525)
	2	APPROPRIATIONS	68	67	(0)
	3	INTEREST INCOME	54	44	(10)
		TOTAL REVENUES & OPERATING RECEIPTS	61,652	60,117	(1,535)
B.	REVENUE REQUIREMENT				
	1	POSTMASTERS	1,713	1,710	(2)
	2	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,518	3,512	(6)
	3	CLERKS & MAILHANDERS	17,760	17,846	(114)
	4	CLERKS, CAG K POST OFFICES	10	8	(2)
	6&7	CITY DELIVERY CARRIERS	11,961	12,076	116
	8	VEHICLE SERVICE DRIVERS	449	457	8
	9	SPECIAL DELIVERY MESSENGERS	114	71	(43)
	10	RURAL CARRIERS	3,722	3,678	(43)
	11	CUSTODIAL & MAINTENANCE SERVICES	2,316	2,304	(11)
	12	MOTOR VEHICLE SERVICES	648	673	25
	13	MISCELLANEOUS LOCAL OPERATIONS	292	304	12
	14	CONTRACTURAL TRANSPORTATION OF MAIL	4,327	4,242	(84)
	15	BUILDING OCCUPANCY	1,541	1,439	(101)
	17	RESEARCH & DEVELOPMENT	57	77	20
	19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	39	36	(3)
	16	SUPPLIES & SERVICES	3,531	3,222	(310)
	18	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	4,596	4,576	(20)
	20	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	4,099	3,533	(566)
	21	SUBTOTAL - 16, 18, 20	12,226	11,331	(895)
	22	FINAL ADJUSTMENTS	(127)	-	127
		TOTAL ACCRUED COSTS	60,564	59,567	(997)
	23	CONTINGENCY	606	-	(606)
		TOTAL COSTS	61,169	59,567	(1,603)
	24	RECOVERY OF PRIOR YEAR LOSSES	447		
C.	TOTAL REVENUE REQUIREMENT		61,616.1		
		REVENUE SURPLUS (DEFICIENCY)	36		
		NET INCOME (LOSS) WITH CONTINGENCY	493	550	68
		NET INCOME (LOSS) WITHOUT CONTINGENCY	1,088	550	(538)

1/ Testimony of William P. Tayman, Docket No. R97-1, USPS 9A, as revised 8/22/97. Estimates reflect Test Year (FY 98) After Rates.

2/ From Exhibit 9J, Page 1 of 8. New rates were not implemented until January 10, 1999.

BEFORE RATES
COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE
REVENUE AND COST VARIANCES
(\$ IN MILLIONS)

		FY 1997		R97-1(FY 1998) TEST YEAR				
				PERCENT	BEFORE		PERCENT	
		ESTIMATED	ACTUAL	ACTUAL	RATES		ACTUAL	WBGHTED
		1/	2/	OVER OR	ESTIMATED	ACTUAL	OVER OR	AVERAGE
				(UNDER)			(UNDER)	VARIANCE
REVENUES								
COST SEGMENT	OPERATING REVENUE	57,707.7	58,132.0	0.7	59,328.8	60,005.0	1.1	0.9
	APPROPRIATIONS	83.4	83.4	0.0	87.3	87.3	(0.0)	(0.0)
	INTEREST INCOME	100.2	115.3	15.1	33.8	44.5	32.3	19.4
	TOTAL REVENUES & OPER RECEIPTS	57,891.3	58,330.7	0.8	59,427.6	60,116.8	1.2	1.0
	OPERATING EXPENSES							
1	POSTMASTERS	1,688.9	1,707.2	2.3	1,714.8	1,710.4	(0.2)	1.0
2	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,355.5	3,387.2	0.9	3,514.7	3,512.4	(0.1)	0.4
3	CLERKS & MAILHANDERS	17,062.7	17,287.7	1.3	17,707.5	17,846.1	(0.3)	0.5
4	CLERKS, CAG K POST OFFICES	9.7	9.1	(8.2)	10.1	8.4	(16.8)	(11.8)
6 & 7	CITY DELIVERY CARRIERS	11,818.3	11,818.5	0.0	11,987.7	12,076.2	0.7	0.4
8	VEHICLE SERVICE DRIVERS	433.5	441.2	1.8	452.8	457.3	1.0	1.4
9	SPECIAL DELIVERY MESSENGERS	109.7	103.3	(5.8)	116.1	71.1	(38.9)	(22.8)
10	RURAL CARRIERS	3,575.5	3,528.3	(1.3)	3,730.6	3,678.2	(1.4)	(1.4)
11	CUSTODIAL & MAINTENANCE SERVICES	2,188.9	2,220.5	1.4	2,310.6	2,304.3	(0.3)	0.6
12	MOTOR VEHICLE SERVICES	619.3	651.1	5.1	648.8	673.1	3.8	4.4
13	MISCELLANEOUS LOCAL OPERATIONS	279.1	292.5	4.8	291.7	303.7	4.1	4.4
14	CONTRACTURAL TRANSPORTATION OF MAIL	4,112.7	4,053.1	(1.4)	4,364.7	4,242.2	(2.8)	(2.1)
15	BUILDING OCCUPANCY	1,412.2	1,328.0	(6.0)	1,540.7	1,439.4	(6.6)	(6.3)
17	RESEARCH & DEVELOPMENT	54.2	68.4	26.2	57.2	77.1	34.8	30.6
19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	36.4	29.1	(20.1)	39.0	36.1	(7.4)	(13.5)
16	SUPPLIES & SERVICES	2,707.1	2,388.7	(12.5)	3,529.6	3,221.8	(8.7)	(10.4)
18	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	4,166.3	3,999.7	(4.0)	4,595.7	4,575.7	(0.4)	(2.1)
20	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	3,647.3	3,772.7	3.4	4,155.5	3,533.2	(15.0)	(6.4)
	SUBTOTAL - 16, 18, 20	10,520.7	10,141.1	(3.6)	12,280.8	11,330.5	(7.7)	(5.8)
	FINAL ADJUSTMENTS				53.2			
	TOTAL ACCRUED COSTS	57,255.6	57,086.3	(0.3)	60,819.5	59,566.5	(2.1)	(1.2)
	CONTINGENCY				608.2			
	TOTAL COST INCLUDING CONTINGENCY	57,255.6	57,086.3	(0.3)	61,427.7	59,566.5	(3.0)	(1.7)
	RECOVERY OF PRIOR YEAR LOSSES				446.9			
	TOTAL REVENUE REQUIREMENT				61,874.6			

NOTE: COLUMN TOTALS MAY NOT ADD DUE TO ROUNDING.
 VARIANCE COMPARISON: ACTUAL OVER OR UNDER () ESTIMATE

SOURCES:

1. FY 97 and FY 98 Estimates taken from R97-1, Exhibit USPS-T-9A.
2. FY 97 Actual taken from the FY 97 Reallocated Trial Balance.
3. FY 98 Actual taken from FY 98 Reallocated Trial Balance.

**AFTER RATES
COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE
REVENUE AND COST VARIANCES
(\$ IN MILLIONS)**

COST SEGMENT	REVENUES	FY 1997			R97-1(FY 1998) TEST YEAR			WEIGHTED AVERAGE VARIANCE
		ESTIMATED 1/	ACTUAL 2/	PERCENT ACTUAL OVER OR (UNDER)	AFTER RATES ESTIMATED 1/	ACTUAL 3/	PERCENT ACTUAL OVER OR (UNDER)	
	OPERATING REVENUE	57,707.7	58,132.0	0.7	61,530.0	60,006.0	(2.5)	(0.9)
	APPROPRIATIONS	83.4	83.4	0.0	87.6	87.3	(0.3)	(0.1)
	INTEREST INCOME	100.2	115.3	15.1	54.4	44.5	(18.3)	3.3
	TOTAL REVENUES & OPER RECEIPTS	57,891.3	58,330.7	0.8	61,651.8	60,116.8	(2.5)	(0.9)
	OPERATING EXPENSES							
1	POSTMASTERS	1,668.9	1,707.2	2.3	1,712.6	1,710.4	(0.1)	1.1
2	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,355.5	3,397.2	0.9	3,517.9	3,512.4	(0.2)	0.4
3	CLERKS & MAILHANDERS	17,062.7	17,287.7	1.3	17,759.8	17,646.1	(0.6)	0.3
4	CLERKS, CAG K POST OFFICES	9.7	9.1	(6.2)	10.1	8.4	(16.8)	(11.6)
6 & 7	CITY DELIVERY CARRIERS	11,818.3	11,818.5	0.0	11,960.5	12,076.2	1.0	0.6
8	VEHICLE SERVICE DRIVERS	433.5	441.2	1.8	449.0	457.3	1.8	1.8
9	SPECIAL DELIVERY MESSENGERS	109.7	103.3	(5.8)	114.1	71.1	(37.7)	(22.1)
10	RURAL CARRIERS	3,575.8	3,528.3	(1.3)	3,721.6	3,678.2	(1.2)	(1.2)
11	CUSTODIAL & MAINTENANCE SERVICES	2,188.9	2,220.5	1.4	2,315.7	2,304.3	(0.5)	0.4
12	MOTOR VEHICLE SERVICES	819.3	851.1	5.1	848.0	873.1	3.9	4.5
13	MISCELLANEOUS LOCAL OPERATIONS	278.1	292.5	4.8	291.6	303.7	4.1	4.5
14	CONTRACTURAL TRANSPORTATION OF MAIL	4,112.7	4,053.1	(1.4)	4,326.5	4,242.2	(1.9)	(1.7)
15	BUILDING OCCUPANCY	1,412.2	1,328.0	(6.0)	1,540.7	1,439.4	(6.6)	(6.3)
17	RESEARCH & DEVELOPMENT	64.2	68.4	28.2	67.2	77.1	34.8	30.6
19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	38.4	29.1	(20.1)	39.0	36.1	(7.4)	(13.5)
16	SUPPLIES & SERVICES	2,707.1	2,388.7	(12.5)	3,531.4	3,221.8	(8.8)	(10.4)
18	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	4,166.3	3,899.7	(4.0)	4,595.7	4,575.7	(0.4)	(2.1)
20	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	3,647.3	3,772.7	3.4	4,098.9	3,533.2	(13.8)	(5.7)
	SUBTOTAL - 16, 18, 20	10,520.7	10,141.1	(3.6)	12,226.0	11,330.5	(7.3)	(5.6)
	FINAL ADJUSTMENTS				(126.6)			
	TOTAL ACCRUED COSTS	57,255.6	57,066.3	(0.3)	60,563.6	59,566.5	(1.6)	(1.0)
	CONTINGENCY				605.8			
	TOTAL COST INCLUDING CONTINGENCY	57,255.6	57,066.3	(0.3)	61,169.2	59,566.5	(2.6)	(1.5)
	RECOVERY OF PRIOR YEAR LOSSES				448.9			
	TOTAL REVENUE REQUIREMENT				61,618.1			

NOTE: COLUMN TOTALS MAY NOT ADD DUE TO ROUNDING.
VARIANCE COMPARISON: ACTUAL OVER OR UNDER () ESTIMATE

SOURCES:

1. FY 97 and FY98 Estimates taken from R97-1, Exhibit USPS-T-8A.
2. FY 97 Actual taken from the FY 97 Reallocated Trial Balance.
3. FY 98 Actual taken from FY 98 Reallocated Trial Balance.

R97-1 BEFORE RATES HISTORICAL WEIGHTED AVERAGE PERCENTAGE REVENUE AND COST VARIANCES FOR TEST YEARS

(\$ Millions)

	R87-1 1/			R90-1 1/			R94-1 1/			R97-1 2/			Four Year Totals		
	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	Before Rates Estimated	Actual	% Over (Under)	Estimated	Actual	% Over (Under)
Total Revenues	38,826.6	38,919.6	0.2	48,101.9	47,106.0	(2.1)	54,589.4	54,509.4	1.2	59,427.6	60,116.8	1.2	200,925.4	200,650.8	(0.1)
Cost Segment															
1	1,298.7	1,240.4	(4.5)	1,465.4	1,431.2	(1.7)	1,544.8	1,632.4	(0.2)	1,714.8	1,710.4	(0.2)	6,013.5	6,014.4	0.0
2	2,858.2	2,787.5	(2.5)	3,272.3	3,238.7	(1.0)	2,758.9	3,170.6	(0.1)	3,514.7	3,512.4	(0.1)	12,404.2	12,709.2	2.5
3	11,899.7	12,614.7	6.0	14,071.3	14,148.0	0.5	15,775.7	16,053.6	(0.3)	17,707.5	17,646.1	(0.3)	59,454.2	60,462.5	1.7
4	30.4	19.8	(35.4)	22.6	10.3	(54.7)	10.2	10.8	(16.8)	10.1	8.4	(16.8)	73.3	48.9	(33.3)
6 & 7	8,463.6	8,506.1	0.5	10,096.9	9,994.8	(1.0)	11,272.5	11,462.5	0.7	11,987.7	12,076.2	0.7	41,820.7	42,038.6	0.5
8	283.8	273.2	(3.7)	326.1	324.7	(0.4)	372.1	400.4	1.0	452.8	457.3	1.0	1,434.8	1,455.6	1.4
9	107.7	104.0	(3.4)	119.3	105.7	(11.4)	110.9	110.0	(38.8)	116.1	71.1	(38.8)	453.9	390.8	(13.8)
10	1,938.5	2,083.5	7.5	2,390.3	2,614.3	9.4	3,141.8	3,216.8	(1.4)	3,730.8	3,878.2	(1.4)	11,201.2	11,592.8	3.5
11	1,528.9	1,393.7	(8.8)	1,844.9	1,734.8	(6.0)	2,116.4	2,058.1	(0.3)	2,310.6	2,304.3	(0.3)	7,800.7	7,490.7	(4.0)
12	484.7	455.9	(5.9)	513.7	489.6	(4.6)	496.6	549.9	3.8	648.6	873.1	3.8	2,143.6	2,148.4	0.2
13	145.1	205.6	41.7	232.0	214.4	(7.6)	221.9	282.6	4.1	291.7	303.7	4.1	890.7	986.3	10.7
14	2,403.4	2,471.3	2.8	2,879.5	2,996.2	4.1	3,504.4	3,509.8	(2.8)	4,364.7	4,242.2	(2.8)	13,152.0	13,219.5	0.5
15	847.1	893.4	5.5	1,056.0	1,051.2	(0.5)	1,284.2	1,182.8	(8.6)	1,540.7	1,439.4	(8.6)	4,728.0	4,546.8	(3.8)
17	19.2	63.6	231.3	98.5	152.5	54.8	86.9	51.9	34.8	57.2	77.1	34.8	241.8	345.1	42.7
19	16.8	17.9	6.5	20.3	21.9	8.2	14.5	30.9	113.1	39.0	36.1	(7.4)	90.5	106.8	17.8
16 3/	808.2	931.6	15.3	1,277.4	1,195.5	(6.4)	1,787.9	2,043.2	NM	3,529.6	3,221.6	(8.7)	7,403.2	7,392.0	NM
18 3/	3,663.9	4,014.2	9.8	5,360.4	6,724.0	26.4	6,593.7	3,729.6	NM	4,595.7	4,575.7	(0.4)	20,213.7	19,043.5	NM
20 3/	548.5	783.6	42.9	1,233.1	1,214.0	(1.5)	1,508.8	3,283.2	NM	4,155.5	3,533.2	(15.0)	7,445.9	8,814.0	NM
Subtotal 3/	5,020.7	5,729.5	14.1	7,870.9	9,133.5	16.0	9,890.5	9,056.0	(8.4)	12,280.8	11,330.5	(7.7)	35,062.9	35,249.5	0.5
Final Adjustments				(84.2)	0.0	N/A	0.0	0.0	0.0	53.2	0.0	0.0	(11.0)	0.0	NM
Total Accrued Costs	37,346.5	38,858.9	4.0	46,205.8	47,841.4	3.1	52,582.3	52,738.9	(2.1)	60,819.5	59,566.5	(2.1)	198,954.1	198,806.7	0.9

1/ From Exhibit USPS-9J, Direct Testimony of William P. Teyman, Docket No. R97-1.

2/ Estimated and Actual from Exhibit USPS-9J, page 1 of 8. Actual not impacted by rate changes effective on January 10, 1999 (after the test year).

3/ Account reclassifications made in FY 95 had a material effect on segments 16, 18, and 20. Individual FY 95 percentage variances for these segments may not be meaningful. The FY 95 and four year weighted average percentage variances are calculated in total for these three segments only.

R97-1 AFTER RATES
HISTORICAL WEIGHTED AVERAGE PERCENTAGE REVENUE AND COST VARIANCES FOR TEST YEARS

(# Millions)

	R87-1 1/			R89-1 1/			R94-1 1/			R97-1 2/			Four Year Totals		
	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	Estimated	Actual	% Over (Under)
Total Revenues	38,826.5	38,918.6	0.2	48,101.9	47,105.0	(2.1)	54,589.4	54,509.4	1.2	61,661.8	60,116.8	(2.5)	203,149.6	200,650.8	(1.2)
Cost Segment															
1	1,298.7	1,240.4	(4.5)	1,455.4	1,431.2	(1.7)	1,544.8	1,632.4	(0.2)	1,712.6	1,710.4	(0.1)	8,011.5	8,014.4	0.0
2	2,858.2	2,787.5	(2.5)	3,272.3	3,238.7	(1.0)	2,758.9	3,170.6	(0.1)	3,517.9	3,512.4	(0.2)	12,407.4	12,709.2	2.4
3	11,899.7	12,814.7	6.0	14,071.3	14,148.0	0.5	15,775.7	16,063.6	(0.3)	17,759.6	17,646.1	(0.6)	59,606.3	60,462.5	1.6
4	30.4	19.6	(35.4)	22.6	10.3	(54.7)	10.2	10.6	(18.8)	10.1	8.4	(18.8)	73.3	48.9	(33.3)
6 & 7	8,463.6	8,506.1	0.5	10,096.9	9,994.8	(1.0)	11,272.5	11,482.5	0.7	11,980.5	12,076.2	1.0	41,793.5	42,038.6	0.6
8	283.8	273.2	(3.7)	326.1	324.7	(0.4)	372.1	400.4	1.0	449.0	457.3	1.8	1,431.0	1,455.6	1.7
9	107.7	104.0	(3.4)	119.3	105.7	(11.4)	110.9	110.0	(38.8)	114.1	71.1	(37.7)	451.9	390.8	(13.5)
10	1,938.5	2,083.5	7.5	2,390.3	2,614.3	9.4	3,141.8	3,216.8	(1.4)	3,721.6	3,678.2	(1.2)	11,192.2	11,592.8	3.6
11	1,528.9	1,393.7	(8.8)	1,844.9	1,734.6	(6.0)	2,116.4	2,068.1	(0.3)	2,315.7	2,304.3	(0.5)	7,805.8	7,490.7	(4.0)
12	484.7	455.9	(5.9)	513.7	489.6	(4.6)	496.6	549.9	3.8	648.0	673.1	3.9	2,143.0	2,148.4	0.3
13	145.1	205.6	41.7	232.0	214.4	(7.6)	221.9	282.6	4.1	291.6	303.7	4.1	890.6	986.3	10.7
14	2,403.4	2,471.3	2.8	2,879.5	2,898.2	4.1	3,504.4	3,509.8	(2.8)	4,326.5	4,242.2	(1.9)	13,113.8	13,219.5	0.8
15	847.1	893.4	5.6	1,058.0	1,051.2	(0.6)	1,284.2	1,162.8	(8.6)	1,540.7	1,439.4	(6.6)	4,728.0	4,546.8	(3.8)
17	19.2	63.6	231.3	98.5	152.5	54.8	66.9	51.9	34.8	57.2	77.1	34.8	241.8	345.1	42.7
19	16.8	17.9	6.5	20.3	21.9	8.2	14.5	30.9	113.1	39.0	36.1	(7.4)	80.5	106.8	17.9
16 3/	808.2	931.6	16.3	1,277.4	1,195.5	(6.4)	1,787.9	2,043.2	NM	3,531.4	3,221.6	(8.8)	7,405.0	7,392.0	NM
18 3/	3,663.9	4,014.2	9.6	5,360.4	6,724.0	25.4	6,593.7	3,728.6	NM	4,595.7	4,575.7	(0.4)	20,213.7	19,043.5	NM
20 3/	548.5	783.6	42.9	1,233.1	1,214.0	(1.5)	1,508.8	3,283.2	NM	4,098.9	3,533.2	(13.8)	7,389.3	8,814.0	NM
Subtotal 3/	5,020.7	5,728.5	14.1	7,870.9	9,133.5	16.0	9,890.5	9,056.0	(8.4)	12,226.0	11,330.5	(7.3)	35,008.1	35,248.5	0.7
Final Adjustments				(64.2)	0.0	N/A	0.0	0.0	0.0	(128.5)	0.0	0.0	(190.7)	0.0	NM
Total Accrued Costs	37,346.5	38,858.9	4.0	46,205.8	47,641.4	3.1	52,582.3	52,738.9	(2.1)	60,563.6	59,586.5	(1.6)	198,698.2	198,805.7	1.1

1/ From Exhibit USPS-9J, Direct Testimony of William P. Tayman, Docket No. R97-1.

2/ Estimated and Actual from Exhibit USPS-9J, page 2 of 8. Actual not impacted by rate changes effective on January 10, 1998 (after the test year).

3/ Account reclassifications made in FY 95 had a material effect on segments 16, 18, and 20. Individual FY 95 percentage variances for these segments are not meaningful. The FY 95 and four year weighted average percentage variances are calculated in total for these three segments only.

R97-1 BEFORE RATES APPLICATION OF HISTORICAL WEIGHTED AVERAGE PERCENTAGE COST VARIANCES TO TEST YEAR ESTIMATES (\$ THOUSANDS)				
	COST SEGMENT	TEST YEAR ESTIMATE	WEIGHTED 1/ AVG. % VAR.	IMPLIED TEST YEAR VARIANCE
1	1	1,869,428	1.0078	18,841
2	2	3,782,609	0.4279	16,187
3	3	19,118,127	0.4705	89,954
4	4	9,643	(11.6162)	(1,120)
5	6 & 7	13,638,050	0.3810	51,965
6	8	511,885	1.3765	7,046
7	9	0	(22.7635)	0
8	10	4,355,648	(1.3673)	(59,555)
9	11	2,780,002	0.5623	15,632
10	12	722,705	4.4404	32,091
11	13	327,831	4.4499	14,588
12	14	4,619,553	(2.1481)	(99,231)
13	15	1,633,711	(6.2820)	(102,629)
14	17	45,342	30.6104	13,879
15	19	48,522	(13.5279)	(6,564)
16	16	3,807,497	(10.3645)	(394,626)
17	18	5,767,208	(2.1297)	(122,821)
18	20	4,150,035	(6.3682)	(264,284)
19	Final Adjustments	2,838	(1.2215) 4/	(35)
20	TOTAL COST	67,190,634		(790,682) 2/
21	REVENUES	69,116,820	0.9620	664,875 3/
22	TOTAL FAVORABLE VARIANCE			(1,455,557)

TOTAL AS PERCENTAGE OF TOTAL
PROJECTED TEST YEAR COSTS

-2.2%

1/ COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE COST AND REVENUE VARIANCES IS
SHOWN IN EXHIBIT USPS-9J PAGE 1 OF 8.

2/ ACTUAL EXPENSE LOWER THAN ESTIMATED.

3/ ACTUAL REVENUE HIGHER THAN ESTIMATED.

4/ OVERALL COST VARIANCE APPLIED TO FINAL ADJUSTMENTS.

R97-1 AFTER RATES APPLICATION OF HISTORICAL WEIGHTED AVERAGE PERCENTAGE COST VARIANCES TO TEST YEAR ESTIMATES (S THOUSANDS)				
	COST EGMENT	TEST YEAR ESTIMATE	WEIGHTED 1/ AVG. % VAR	IMPLIED TEST YEAR VARIANCE
5	1	1,869,428	1.0676	19,958
	2	3,782,609	0.3812	14,419
6	3	19,118,127	0.3202	61,216
	4	9,643	(11.6162)	(1,120)
7	6 & 7	13,638,050	0.4959	67,626
	8	511,885	1.8130	9,281
8	9	0	(22.0733)	0
	10	4,355,648	(1.2456)	(54,256)
9	11	2,780,002	0.4484	12,466
	12	722,705	4.4899	32,448
10	13	327,831	4.4682	14,648
	14	4,619,553	(1.7051)	(78,770)
11	15	1,633,711	(6.2820)	(102,629)
	17	45,342	30.6104	13,879
12	19	48,522	(13.5279)	(6,564)
	16	3,807,497	(10.3903)	(395,611)
13	18	5,767,208	(2.1297)	(122,821)
	20	4,150,035	(5.6841)	(235,891)
	Final Adjustments	2,838	(1.0070) 4/	(29)
15	TOTAL COST	67,190,634		(751,751) 2/
16	REVENUES	69,116,820	(0.9165)	(633,472) 3/
	TOTAL FAVORABLE VARIANCE			(118,279)
17	TOTAL AS PERCENTAGE OF TOTAL PROJECTED TEST YEAR COSTS			
18				

19
20 1/ COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE COST AND REVENUE VARIANCES IS
SHOWN IN EXHIBIT USPS-9J PAGE 2 OF 8.

2/ ACTUAL EXPENSE LOWER THAN ESTIMATED.

3/ ACTUAL REVENUE LOWER THAN ESTIMATED.

4/ OVERALL COST VARIANCE APPLIED TO FINAL ADJUSTMENTS.

R97-1 BEFORE RATES APPLICATION OF HISTORICAL WEIGHTED AVERAGE PERCENTAGE COST VARIANCES TO TEST YEAR ESTIMATES (S THOUSANDS)				
	COST SEGMENT	TEST YEAR ESTIMATE	WEIGHTED 1/ AVG. % VAR.	IMPLIED TEST YEAR VARIANCE
5	1	1,869,428	0.0149	278
	2	3,782,609	2.4589	93,009
6	3	19,118,127	1.6958	324,208
	4	9,643	(33.3297)	(3,214)
7	6 & 7	13,638,050	0.5209	71,047
	8	511,885	1.4450	7,397
8	9	0	(13.9105)	0
	10	4,355,648	3.4960	152,272
9	11	2,780,002	(3.9749)	(110,504)
	12	722,705	0.2253	1,628
10	13	327,831	10.7334	35,187
	14	4,619,553	0.5133	23,714
11	15	1,633,711	(3.8325)	(62,612)
	17	45,342	42.7107	19,366
12	19	48,522	17.9370	8,703
	16 2/	3,807,497	-	-
13	18 2/	5,767,208	-	-
	20 2/	4,150,035	-	-
	Subtotal 2/	13,724,740	0.5322	73,046
	Final Adjustments	2,838	0.9401 5/	27
15	TOTAL COST	67,190,634		633,552 3/
16	REVENUES	69,116,820	(0.1367)	(94,486) 4/
	TOTAL UNFAVORABLE VARIANCE			728,039
17	TOTAL AS PERCENTAGE OF TOTAL			
18	PROJECTED TEST YEAR COSTS			
	1.1%			

1/ COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE COST AND REVENUE VARIANCES
IS SHOWN IN EXHIBIT USPS-9J PAGE 3 OF 8.

2/ ACCOUNT RECLASSIFICATIONS MADE IN FY 95 HAD A MATERIAL EFFECT ON SEGMENTS 16, 18,
AND 20. INDIVIDUAL FY 95 PERCENTAGE VARIANCES FOR THESE SEGMENTS MAY NOT
MEANINGFUL. WEIGHTED AVERAGE PERCENTAGE VARIANCES ARE APPLIED IN TOTAL FOR
THESE 3 SEGMENTS ONLY.

3/ ACTUAL EXPENSE HIGHER THAN ESTIMATED.

4/ ACTUAL REVENUES LOWER THAN ESTIMATED.

5/ OVERALL COST VARIANCE APPLIED TO FINAL ADJUSTMENTS

R97-1 AFTER RATES
APPLICATION OF HISTORICAL WEIGHTED AVERAGE
PERCENTAGE COST VARIANCES TO TEST YEAR ESTIMATES
(\$ THOUSANDS)

	<u>COST</u>	<u>TEST YEAR</u>	<u>WEIGHTED 1/</u>	<u>IMPLIED</u>
	<u>SEGMENT</u>	<u>ESTIMATE</u>	<u>AVG. % VAR.</u>	<u>TEST YEAR</u>
				<u>VARIANCE</u>
5	1	1,869,428	0.0481	900
	2	3,782,609	2.4324	92,009
6	3	19,118,127	1.6068	307,186
	4	9,643	(33.3297)	(3,214)
7	6 & 7	13,638,050	0.5864	79,969
	8	511,885	1.7144	8,776
8	9	0	(13.5295)	0
	10	4,355,648	3.5792	155,897
9	11	2,780,002	(4.0377)	(112,248)
	12	722,705	0.2534	1,831
10	13	327,831	10.7458	35,228
	14	4,619,553	0.8061	37,239
11	15	1,633,711	(3.8325)	(62,612)
	17	45,342	42.7107	19,366
12	19	48,522	17.9370	8,703
	16 2/	3,807,497	-	-
13	18 2/	5,767,208	-	-
	20 2/	4,150,035	-	-
	Subtotal 2/	13,724,740	0.6896	94,644
	Final Adjustments	2,838	1.0715 5/	30
15	TOTAL COST	67,190,634		663,706 3/
16	REVENUES	69,116,820	(1.2301)	(850,183) 4/
	TOTAL UNFAVORABLE VARIANCE			1,513,889

**TOTAL AS PERCENTAGE OF TOTAL
PROJECTED TEST YEAR COSTS**

2.3%

1/ COMPUTATION OF WEIGHTED AVERAGE PERCENTAGE COST AND REVENUE VARIANCES IS SHOWN IN EXHIBIT USPS-9J PAGE 4 OF 8.

2/ ACCOUNT RECLASSIFICATIONS MADE IN FY 95 HAD A MATERIAL EFFECT ON SEGMENTS 16, 18, AND 20. INDIVIDUAL FY 95 PERCENTAGE VARIANCES FOR THESE SEGMENTS MAY NOT MEANINGFUL. WEIGHTED AVERAGE PERCENTAGE VARIANCES ARE APPLIED IN TOTAL FOR THESE 3 SEGMENTS ONLY.

3/ ACTUAL EXPENSE HIGHER THAN ESTIMATED.

4/ ACTUAL REVENUES LOWER THAN ESTIMATED.

5/ OVERALL COST VARIANCE APPLIED TO FINAL ADJUSTMENTS.

OBRA Costs

(\$ in billions)

EXHIBIT
USPS 9-K

FISCAL YEAR	OBRA 1985	OBRA 1987	OBRA 1989	OBRA 90		OBRA 1993	TOTALS	
				CURRENT	RETRO		ANNUAL	CUM.
1987	0.010	---	---	---	---	---	0.010 b/	0.010
1988	0.053	0.510	---	---	---	---	0.563 b/	0.573
1989	0.100	0.270	---	---	---	---	0.370 b/	0.943
1990	0.166	---	0.074	---	---	---	0.240 b/	1.183
1991	a/	a/	a/	0.749	1.901	---	2.650 b/	3.833
1992	a/	a/	a/	0.871	0.081	---	0.952 b/	4.785
1993	a/	a/	a/	1.061	0.070	0.857	1.988 b/	6.772
1994	a/	a/	a/	1.139	0.054	0.043	1.236 b/	8.009
1995	a/	a/	a/	1.212	0.034	0.045	1.291 b/	9.300
1996	a/	a/	a/	1.247	---	0.047	1.294 b/	10.594
1997	a/	a/	a/	1.365	---	0.032	1.397 b/	11.991
1998	a/	a/	a/	1.440	---	0.016	1.457 b/	13.448
1999	a/	a/	a/	1.505	---	---	1.505 c/	14.953
2000	a/	a/	a/	1.728	---	---	1.728 c/	16.681
2001	a/	a/	a/	1.921	---	---	1.921 c/	18.602
Totals	0.329	0.780	0.074	14.237	2.140	1.041	18.602	

a/ Enactment of the OBRA 1990 superceded prior OBRAs, therefore all costs are now identified as OBRA 1990.

b/ Source: USPS 1998 Comprehensive Statement and USPS financial records.

c/ Source: Library Reference I-127

US Postal Service
Summary of Net Income (Loss) & Equity
FY 1971 - FY 2000
Dollars in Millions

EXHIBIT
USPS 9L

Fiscal Year	Net Income	Net Loss	Cumulative FY 72-00		Equity
1971					1,685.717
1972		(175.435)	(175.435)		1,548.306
1973		(12.964)	(188.399)		1,565.552
1974		(438.359)	(626.758)		1,146.782
1975		(988.758)	(1,615.516)		190.267
1976		(1,175.802)	(2,791.318)		(955.358)
TQ	15.170		(2,776.148)		(428.830)
1977		(687.849)	(3,463.997)		(587.534)
1978		(379.428)	(3,843.425)	R80-1	(945.222)
1979	469.836		(3,373.589)	Cumulative	(443.692)
1980		(306.392)	(3,679.981)	FY 81-84	(718.931)
1981		(587.739)	(4,267.720)	(588)	(1,306.700)
1982	801.576		(3,466.144)	214	(505.146)
1983	616.326		(2,849.818)	830	111.770
1984	117.352		(2,732.466)	948	310.739
1985		(251.480)	(2,983.946)		58.364
1986	304.608		(2,679.338)	R94-1	361.868
1987		(222.686)	(2,902.024)	Cumulative	138.227
1988		(596.910)	(3,498.934)	FY 95-98	(460.434)
1989	60.719		(3,438.215)	1,770	(401.629)
1990		(873.578)	(4,311.793)	3,337	(1,277.666)
1991		(1,468.614)	(5,780.407)	4,602	(2,746.936)
1992		(536.462)	(6,316.869)	5,152	(3,283.116)
1993		(1,764.915)	(8,081.784)		(5,047.700)
1994		(913.600)	(8,995.384)	R97-1	(5,961.500)
1995	1,770.255		(7,225.129)	Cumulative	(4,191.045)
1996	1,567.177		(5,657.952)	FY 99-00	(2,623.500)
1997	1,264.382		(4,393.570)	363	(1,359.539)
1998	550.243		(3,843.327)	429	(809.403)
1999	363.411		(3,479.916)		(445.992)
2000 Est.	65.603		(3,414.313)		(380.389)
Total 72-00	7,966.658	(11,380.971)	(3,414.313)		

Source: FY 96 and prior years taken from R97-1, USPS-T-9, Exhibit 9L. FY 97 - FY 99 taken from USPS Financial Statements.

Note: The period FY 95-98 includes 3 months of R90-1 rates. The period FY 99-FY 2000 includes 3 months of R94-1 rates.

EXHIBIT
USPS-9M

Summary of Changes in Accrued Costs by Source
\$ in Millions

	Fiscal Year 1999			Fiscal Year 2000			Test Year Before Rates			Test Year After Rates		
	Amount	Percent of		Amount	Percent of		Amount	Percent of		Amount	Percent of	
		Prior Yr.	Total Chg.		Prior Yr.	Total Chg.		Prior Yr.	Total Chg. 1/		Prior Yr.	Total Chg. 1/
Prior Yr. Cost	59,566.5			62,400.4			64,751.8			64,751.8		
Cost Level	1,515.6	2.5%	53.5%	1,899.0	2.9%	57.6%	2,206.8	3.4%	67.0%	2,206.8	3.4%	90.5%
Mail Volume Effect	524.0	0.9%	18.5%	839.3	1.3%	25.5%	656.6	1.0%	19.9%	(30.2)	0.0%	-1.2%
Non-Volume Workload	160.6	0.3%	5.7%	183.9	0.3%	5.6%	156.6	0.2%	4.8%	156.5	0.2%	6.4%
Additional Workday	-	0.0%	0.0%	44.3	0.1%	1.3%	(106.9)	-0.2%	-3.2%	(106.9)	-0.2%	-4.4%
Cost Reductions	(670.2)	-1.1%	-23.6%	(980.6)	-1.5%	-29.8%	(653.9)	-1.0%	-19.8%	(653.9)	-1.0%	-26.8%
Other Programs	1,520.4	2.6%	53.7%	371.0	0.6%	11.3%	1,125.4	1.7%	34.2%	1,001.4	1.5%	41.1%
Base Year Unit Cost Adj.	(77.7)	-0.1%	-2.7%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%
Workyear Mix Adj. 2/	41.3	0.1%	1.5%	(7.4)	0.0%	-0.2%	(33.3)	-0.1%	-1.0%	(36.6)	-0.1%	-1.5%
Final Adjustments 2/	(180.1)	-0.3%	-6.4%	1.9	0.0%	0.1%	(56.5)	-0.1%	-1.7%	(98.4)	-0.2%	-4.0%
Total Chg. Before Contingency	2,833.9	4.8%	100.0%	2,351.4	3.6%	71.4%	3,294.8	5.1%	100.0%	2,438.7	3.8%	100.0%
Contingency							1,701.2	2.6%	51.6%	1,679.8	2.6%	68.9%
Total Chg. After Contingency	2,833.9	4.8%	100.0%	2,351.4	3.6%	100.0%	4,996.0	7.7%	151.6%	4,118.5	6.4%	168.9%

1/ Before Contingency

2/ The workyear mix and final adjustments are relative to FY 98. The changes from FY 1999 and FY 2000 are therefore calculated by subtracting the FY 1999 and FY 2000 adjustments from the FY 2000 and FY 2001 adjustments.

Net Income (Loss)
GAP From Equity Restoration Target
(\$millions)

1	2	3	4	5
Fiscal Year	Actual or Estimate	Needed to Meet BOG Target	Over/(Under) Actual/Estimate	Cumulative Amt. Over/(Under)
1994	(914)	(1,344)	430	430
1995	1,770	936	834	1,264
1996	1,567	936	631	1,895
1997	1,264	936	328	2,223
1998	550	936	(386)	1,837
1999	363	517	(154)	1,683
2000	66	377	(311)	1,372
2001 1/	(1,718)	377	(2,095)	(723)
2001 2/	(3,419)	377	(3,796)	(2,424)

Column 2 - FY 94 - 99 are actual results reflected on Exhibit 9L. FY 2000 and FY 2001 are before rates estimates reflected on Exhibit 9A.

Column 3 - Reflects R94-1 and R97-1 Decisions. FY 95 - 98 reflects annual average net income needed to meet the R94-1 target. FY 1999 is a proration of the R-94-1 and R-97-1 targets based on the timing of new rate implementation. FY 2000 and FY 2001 reflects annual average net income needed to meet the R97-1 target.

1/ Excludes contingency

2/ Includes contingency

**Summary of Unit Labor Costs for Major
Employee Groups**

Pay Increases	%	Effective Date	Annual Rate	Effective Amount			
				FY 1998	FY 1999	FY 2000	FY 2001
Clerks	1.20	11/22/97	\$ 408.94	\$ 350.68	\$ 58.26		
City Carriers	1.20	11/22/97	\$ 404.50	\$ 346.87	\$ 57.63		
Mail Handlers	1.24	11/22/97	\$ 386.44	\$ 331.38	\$ 55.05		
Rural Carriers	1.30	11/22/97	\$ 443.99	\$ 380.74	\$ 63.25		
Non- Bargaining	1.96	1/3/98	\$ 945.51	\$ 702.01	\$ 243.50		
Clerks	2.00	11/21/98	\$ 710.18		\$ 610.95	\$ 99.23	
City Carriers 1/	2.00	11/21/98	\$ 715.85		\$ 71.16	\$ 11.56	
Mail Handlers	2.07	11/21/98	\$ 683.76		\$ 588.22	\$ 95.54	
Rural Carriers	2.10	6/5/99	\$ 739.11		\$ 238.95	\$ 500.17	
Non- Bargaining	1.48	1/2/99	\$ 726.24		\$ 541.20	\$ 185.04	
Clerks	1.40	11/20/99	\$ 499.18			\$ 430.98	\$ 68.19
City Carriers 2/	1.40	11/20/99	\$ 503.52			\$1,282.99	\$ 203.00
Mail Handlers	1.45	11/20/99	\$ 487.17			\$ 420.62	\$ 66.55
Rural Carriers	1.50	11/20/99	\$ 528.95			\$ 456.69	\$ 72.26
Non- Bargaining	3.14	1/1/00	\$ 1,561.33			\$1,168.86	\$ 392.47
Clerks	1.74	11/18/00	\$ 653.65				\$ 567.69
City Carriers 3/	4.10	11/18/00	\$ 1,478.47				\$1,284.04
Mail Handlers	1.66	11/18/00	\$ 591.41				\$ 513.63
Rural Carriers	2.14	11/18/00	\$ 792.88				\$ 688.61
Non- Bargaining	3.24	12/30/00	\$ 1,658.55				\$1,249.60

Lump Sums

City Carriers 5/					\$ 728.63	\$ 118.61	
Rural Carriers					\$ 400.00		
Non- Bargaining 4/				\$ 2,706.32	\$ 2,711.82	\$1,885.76	\$1,887.32

COLA's

Clerks, MH's, Rural, City		3/14/98	\$ 167.00	\$ 91.96	\$ 75.04		
Clerks, MH's, Rural, City		9/12/98	\$ 208.00	\$ 10.83	\$ 197.17		
Clerks, MH's		3/13/99	\$ 62.00		\$ 34.31	\$ 27.69	
City Carriers 1/		3/13/99	\$ 62.00		\$ 3.97	\$ 3.20	
Rural Carriers		3/13/99	\$ 187.00		\$ 103.49	\$ 83.51	
Clerks, MH's, Rural		9/11/99	\$ 333.00		\$ 18.25	\$ 314.75	
City Carriers 1/		9/11/99	\$ 333.00		\$ 2.11	\$ 36.37	
Clerks, MH's, City		3/11/00	\$ 375.00			\$ 209.02	\$ 165.98
Rural Carriers		3/11/00	\$ 62.00			\$ 34.56	\$ 27.44
Clerks, MH's, City		9/9/00	\$ 291.00			\$ 17.49	\$ 273.51
Rural Carriers		9/9/00	\$ 292.00			\$ 17.55	\$ 274.45
City Carriers		3/10/01	\$ 208.00				\$ 116.82
City Carriers		9/8/01	\$ 333.00				\$ 20.98

1/ Retiree eligibles only. Effective amounts reflect the proportion of city carriers that are retiree eligible (approximately 12%).

2/ Effective amount includes 11/21/98 pay increase, 3/13/99 cola, and 9/11/99 cola, for non-retiree eligibles, and 11/20/99 pay increase for all NALC employees.

3/ Includes impact of upgrade to level 6.

4/ Includes Economic Value Added and lump sum portion of Merit.

5/ Non-retiree eligibles only.

Source - Chapter VIII of Library Reference I 127.

CHANGES IN WORKYEARS BY SOURCE

Sources of Change	FY 1999		
	Percent of		Total Change
	Amount	Prior Year	
Prior Year Workyears	909,578		
Mail Volume Effect	9,715	1.1%	159.4%
Non-Volume Effect	2,762	0.3%	45.3%
Additional Workday	-	0.0%	0.0%
Cost Reduction Programs	(11,545)	-1.3%	-189.4%
Other Programs	9,935	1.1%	163.0%
Other Changes	(580)	-0.1%	-9.5%
Final Adjustments	(4,191)	-0.5%	-68.8%
Total Change	6,096	0.7%	100.0%

FY 2000		
Percent of		Total Change
Amount	Prior Year	
915,673		
13,562	1.5%	18175.8%
2,941	0.3%	3941.9%
788	0.1%	1055.9%
(18,222)	-2.0%	-24420.7%
1,955	0.2%	2620.2%
-	0.0%	0.0%
(950)	-0.1%	-1273.0%
75	0.0%	100.0%

Sources of Change	FY 2001 Before Rates		
	Percent of		Total Change
	Amount	Prior Year	
Prior Year Workyears	915,748		
Mail Volume Effect	9,784	1.1%	-443.5%
Non-Volume Effect	2,458	0.3%	-111.4%
Additional Workday	(1,823)	-0.2%	82.6%
Cost Reduction Programs	(12,397)	-1.4%	562.0%
Other Programs	1,076	0.1%	-48.8%
Final Adjustments	(1,305)	-0.1%	59.1%
Total Change	(2,206)	-0.2%	100.0%

FY 2001 After Rates		
Percent of		Total Change
Amount	Prior Year	
915,748		
(1,116)	-0.1%	8.2%
2,457	0.3%	-18.1%
(1,823)	-0.2%	13.4%
(12,397)	-1.4%	91.2%
1,076	0.1%	-7.9%
(1,796)	-0.2%	13.2%
(13,597)	-1.5%	100.0%

Source: Chapter X of Library Reference I-127

**COST SEGMENT SUMMARY
SUMMARY OF WORKYEARS AND CHANGES**

Cost Segment	FY 1998	Projected Change from		%	FY 1999	Projected Change from		%
	Workyears	FY 1998 to FY 1999		Chg	Workyears	FY 1999 to FY 2000		Chg
1 Postmasters	31,538	176		0.6%	31,714	199		0.6%
2 Supervisors	58,226	464		0.8%	58,690	(126)		-0.2%
3 Clerks & Mail Handlers	397,599	(2,662)		-0.7%	394,937	(1,111)		-0.3%
4 Clerks - CAG K	211	1		0.3%	212	2		1.0%
6 & 7 City Delivery Carriers	262,147	3,386		1.3%	265,533	(3,267)		-1.2%
8 Vehicle Drivers	9,616	(68)		-0.7%	9,547	198		2.1%
9 Special Delivery Carriers	-	-						
10 Rural Carriers	83,850	2,432		2.9%	86,282	2,376		2.8%
11 Custodial & Maintenance	46,059	1,290		2.8%	47,349	1,752		3.7%
12 Motor Vehicle Service	6,178	32		0.5%	6,210	51		0.8%
13 Miscellaneous	854	(9)		-1.1%	845	-		0.0%
16 Supplies & Services	337	(67)		-20.1%	269	-		0.0%
18 Administration & Area Operations	12,916	1,113		8.6%	14,028	0		0.0%
19 Maintenance & Technical Support	48	8		16.7%	56	-		0.0%
Total Workyears	909,578	6,096		0.7%	915,673	75		0.0%

Cost Segment	FY 2000	Projected Change from		%	FY 2000	Projected Change from		%
	Workyears	FY 2000 to TY BR		Chg	Workyears	FY 2000 to TY AR		Chg
1 Postmasters	31,914	(9)		0.0%	31,914	(126)		-0.4%
2 Supervisors	58,564	335		0.6%	58,564	(272)		-0.5%
3 Clerks & Mail Handlers	393,826	(5,767)		-1.5%	393,826	(12,180)		-3.1%
4 Clerks - CAG K	214	1		0.3%	214	(1)		-0.7%
6 & 7 City Delivery Carriers	262,265	188		0.1%	262,265	(2,647)		-1.0%
8 Vehicle Drivers	9,746	133		1.4%	9,746	(77)		-0.8%
9 Special Delivery Carriers								
10 Rural Carriers	88,658	1,922		2.2%	88,658	930		1.0%
11 Custodial & Maintenance	49,101	971		2.0%	49,101	768		1.6%
12 Motor Vehicle Service	6,261	21		0.3%	6,261	9		0.1%
13 Miscellaneous	845	-		0.0%	845	-		0.0%
16 Supplies & Services	269	-		0.0%	269	-		0.0%
18 Administration & Area Operations	14,029	(1)		0.0%	14,029	(1)		0.0%
19 Maintenance & Technical Support	56	-		0.0%	56	-		0.0%
Total Workyears	915,748	(2,206)		-0.2%	915,748	(13,597)		-1.5%

Source: Chapter X of Library Reference I-127

ANALYSIS OF CHANGES IN PERSONNEL COST LEVELS													EXHIBIT USPS-9Q
													Page 1 of 3
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SALARIES													
COST SEGMENT		FY 1998	COST LEVEL CHANGES-SALARIES			NEW COSTS			NET LUMP	STEP/	ROLLUP	OTHER	TOTAL
		ACTUAL	CARRYOVER COSTS						SUM	MERIT	PREMIUM		%
			PAY	COLA	TOTAL	PAY *	COLA	TOTAL					INCR.
1	Postmasters	1,430,516	7,611	-	7,611	16,916	-	16,916	(2,651)	-	1,186	-	23,063
2	Supervisors and Technical Personnel	2,888,837	13,833	-	13,833	30,767	-	30,767	(4,817)	-	2,155	-	41,937
3	Clerks & Mail Handlers, CAG A-J (Incl SDMgsrs)	14,496,853	19,822	88,874	108,696	228,797	17,160	245,957	-	71,400	87,978	-	514,030
4	Clerks, CAG K Post Offices	6,599	11	53	64	132	10	142	-	28	38	-	272
6&7	City Delivery Carriers	9,724,826	13,237	62,705	75,942	19,428	1,382	20,810	167,615	39,336	24,402	-	328,105
8	Vehicle Service Drivers	365,407	487	2,286	2,773	5,308	441	5,749	-	1,228	1,586	-	11,336
10	Rural Carriers	2,745,071	3,443	14,817	18,260	19,375	6,626	26,001	32,801	3,693	1,115	-	81,870
11	Custodial & Maintenance Services	1,797,020	3,109	10,668	13,777	26,360	2,060	28,420	(290)	5,728	7,477	-	55,111
12	Motor Vehicle Service	246,588	452	1,399	1,851	3,541	270	3,811	(53)	751	986	-	7,346
13	Miscellaneous Local Operations	51,606	180	35	216	468	7	474	(60)	19	52	-	701
14	Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	-
15	Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	-
16	Supplies and Services	14,543	39	57	96	199	11	210	(9)	31	45	-	373
17	Research & Development	-	-	-	-	-	-	-	-	-	-	-	-
18	Headquarters and Area Administration	783,734	2,590	699	3,290	7,107	135	7,243	(850)	376	877	-	10,935
19	Equip. Maintenance & Mgt Tng. Spt.	3,213	12	-	12	26	-	26	(4)	-	2	-	35
20	Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	-
Total Change in Salaries		34,554,813	64,826	181,593	246,420	358,423	28,102	386,526	191,681	122,589	127,900	-	1,075,115
BENEFITS													
COST SEGMENT		FY 1998	COST LEVEL CHANGES-BENEFITS			NEW COSTS			ROLLUPS		TOTAL		%
		ACTUAL	CARRYOVER COSTS										INCR.
			HEALTH	CSRS/FERS	LIFE INS.	HEALTH	UNIF ALL	CSRS/FERS	LIFE INS.	LI,RET,TSP	SS,MED	CST LEVEL	
1	Postmasters	254,238	1,051	297	-	5,673	-	391	(208)	2,436	3,719	13,359	5.3%
2	Supervisor and Technical Personnel	544,222	1,910	540	-	10,309	-	711	(378)	4,428	6,867	24,387	4.5%
3	Clerks & Mail Handlers, CAG A-J (Incl SDMgsrs)	3,208,368	10,659	3,103	-	76,570	407	4,084	(2,170)	48,864	29,496	171,014	5.3%
4	Clerks, CAG K Post Offices	1,730	6	2	-	45	1	2	(1)	28	15	98	5.7%
6&7	City Delivery Carriers	2,348,217	7,426	2,162	-	53,346	2,663	2,845	(1,512)	16,573	19,025	102,529	4.4%
8	Vehicle Service Drivers	91,763	274	80	-	1,970	29	105	(56)	1,231	675	4,308	4.7%
10	Rural Carriers	603,051	1,777	517	-	12,765	-	681	(362)	5,007	5,527	25,912	4.3%
11	Custodial & Maintenance Services	429,877	1,395	405	-	9,812	135	533	(283)	6,013	3,410	21,419	5.0%
12	Motor Vehicle Service	57,986	189	55	-	1,320	18	72	(38)	803	466	2,883	5.0%
13	Miscellaneous Local Operations	8,970	28	8	-	159	0	11	(6)	74	94	369	4.1%
14	Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	0.0%
15	Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	0.0%
16	Supplies and Services	3,212	11	3	-	69	1	4	(2)	39	29	154	4.8%
17	Research & Development	-	-	-	-	-	-	-	-	-	-	-	0.0%
18	Headquarters and Area Administration	172,186	421	120	-	2,422	9	158	(84)	1,158	1,386	5,589	3.2%
19	Equip. Maintenance & Mgt Tng. Spt.	500	2	0	-	9	-	1	(0)	4	6	20	4.1%
20	Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	0.0%
Total Change in Benefits		7,724,319	25,149	7,293	-	174,469	3,262	9,597	(5,099)	86,658	70,712	372,042	4.8%

Source: Chapter VIII of Library Reference I-127.

ANALYSIS OF CHANGES IN PERSONNEL COST LEVELS														EXHIBIT USPS-9C	
FY 2000 (\$ 000)														Page 2 of 3	
THIS WORKBOOK IS LINKED WORKBOOKS PRFF_00.XLS, WKYRS_00.XLS, UNCST_00.XLS, WKYRC_00.XLS, AND REALTB98.XLS															
SALARIES															
COST SEGMENT		FY 1999	COST LEVEL CHANGES-SALARIES			NEW COSTS			NET LUMP	STEP/	ROLLUP	OTHER	TOTAL	%	
		ESTIMATE	CARRYOVER COSTS												
			PAY	COLA	TOTAL	PAY *	COLA	TOTAL	SUM	MERIT	PREMIUM		CST LEVEL	INCR.	
1	Postmasters	1,461,700	5,816	-	5,816	36,737	-	36,737	(28,808)	-	2,058	-	15,803	1.1%	
2	Supervisors and Technical Personnel	2,966,859	10,641	-	10,641	67,165	-	67,165	(52,708)	-	3,764	-	28,863	1.0%	
3	Clerks & Mail Handlers, CAG A-J (Incl SDMs	15,027,452	33,858	111,928	145,786	160,686	74,035	234,721	-	67,937	92,770	-	541,214	3.6%	
4	Clerks, CAG K Post Offices	6,895	19	66	86	92	44	136	-	30	41	-	293	4.3%	
6&7	City Delivery Carriers	10,201,075	2,668	9,134	11,802	302,163	52,947	355,110	(151,211)	21,909	69,659	-	307,269	3.0%	
8	Vehicle Service Drivers	380,863	851	2,907	3,758	3,795	1,923	5,718	-	1,318	1,754	-	12,548	3.3%	
10	Rural Carriers	2,915,130	48,759	22,354	71,113	25,635	37,042	62,676	(36,119)	2,764	6,030	-	106,464	3.7%	
11	Custodial & Maintenance Services	1,903,694	4,690	13,804	18,494	21,912	9,131	31,043	(3,220)	6,258	8,517	-	61,091	3.2%	
12	Motor Vehicle Service	255,242	635	1,769	2,404	3,003	1,170	4,173	(580)	802	1,102	-	7,901	3.1%	
13	Miscellaneous Local Operations	51,861	143	43	186	884	29	912	(647)	20	72	-	544	1.0%	
14	Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	
15	Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	
16	Supplies and Services	11,924	33	58	91	182	38	220	(81)	26	41	-	298	2.5%	
17	Research & Development	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	
18	Headquarters and Area Administration	866,727	2,293	953	3,246	14,123	630	14,753	(9,975)	432	1,299	-	9,755	1.1%	
19	Equip. Maintenance & Mgt Tng. Spt.	3,790	10	-	10	67	-	67	(51)	-	4	-	30	0.8%	
20	Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	-	0.0%	
Total Change in Salaries		36,053,212	110,416	163,017	273,433	636,445	176,988	813,433	(283,400)	101,496	187,112	-	1,092,073	3.0%	
BENEFITS															
COST SEGMENT		FY 1999	COST LEVEL CHANGES-BENEFITS					NEW COSTS			ROLLUPS		TOTAL	%	
		ESTIMATE	CARRYOVER COSTS												
			HEALTH	CSRS/FERS	UNIF ALL	LIFE INS.	HEALTH	CSRS/FERS	UNIF ALL	LI,RET,TSP	SS,MED	CST LEVEL	INCR.		
1	Postmasters	269,092	1,950	64	-	(268)	8,855	-	-	4,227	3,497	18,325	6.8%		
2	Supervisor and Technical Personnel	575,609	3,568	117	-	(490)	16,200	-	-	7,733	6,500	33,629	5.8%		
3	Clerks & Mail Handlers, CAG A-J (Incl SDMs	3,383,111	26,209	664	66	(2,783)	111,901	-	-	52,762	30,754	219,572	6.5%		
4	Clerks, CAG K Post Offices	1,834	16	0	0	(2)	66	-	-	31	16	128	7.0%		
6&7	City Delivery Carriers	2,486,861	18,508	469	439	(1,965)	79,022	-	-	48,001	28,198	172,671	6.9%		
8	Vehicle Service Drivers	97,122	681	17	5	(72)	2,907	-	-	1,368	747	5,652	5.8%		
10	Rural Carriers	648,584	4,501	114	-	(478)	19,216	-	-	9,843	10,118	43,313	6.7%		
11	Custodial & Maintenance Services	463,860	3,450	89	22	(373)	14,791	-	-	6,970	3,774	28,724	6.2%		
12	Motor Vehicle Service	61,182	453	12	3	(49)	1,947	-	-	918	501	3,784	6.2%		
13	Miscellaneous Local Operations	9,259	54	2	0	(7)	242	-	-	115	89	494	5.3%		
14	Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	0.0%		
15	Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	0.0%		
16	Supplies and Services	2,691	19	1	0	(2)	82	-	-	39	23	162	6.0%		
17	Research & Development	-	-	-	-	-	-	-	-	-	-	-	0.0%		
18	Headquarters and Area Administration	193,895	898	28	2	(116)	4,019	-	-	1,912	1,440	8,182	4.2%		
19	Equip. Maintenance & Mgt Tng. Spt.	607	3	0	-	(0)	16	-	-	8	6	33	5.4%		
20	Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	0.0%		
Total Change in Benefits		8,193,709	60,312	1,576	537	(6,606)	259,263	-	-	133,926	85,663	534,670	6.5%		
Source: Chapter VIII of Library Reference I-127.															

ANALYSIS OF CHANGES IN PERSONNEL COST LEVELS															EXHIBIT USPS-9Q			
FY 2001															Page 3 of 3			
(\$ 000)																		
THIS WORKBOOK IS LINKED WORKBOOKS PRFF_00.XLS, WKYRS_00.XLS, UNCSI_00.XLS, WKYRC_00.XLS, AND REALTB98.XLS																		
SALARIES																		
COST SEGMENT	FY 2000 ESTIMATE	COST LEVEL CHANGES-SALARIES			CARRYOVER COSTS			NEW COSTS			NET LUMP			STEP/ MERIT	ROLLUP PREMIUM	OTHER	TOTAL CST LEVEL	INCR %
		PAY	COLA	TOTAL	PAY*	COLA	TOTAL	UNIF ALL	HEALTH	CSRS/RSERS	UNIF ALL	HEALTH	CSRS/RSERS					
1 Postmasters	1,486,581	12,412	-	12,412	39,520	-	39,520	-	-	-	-	-	-	5,158	3,842	-	52,502	3.5%
2 Supervisors and Technical Personnel	2,992,397	22,544	-	22,544	71,728	-	71,728	-	-	-	-	-	-	8,368	7,089	-	95,308	3.2%
3 Clerks & Mail Handlers, CAG A-J (Incl SDMsg)	15,552,411	23,085	143,482	166,566	207,084	-	207,084	214	98,478	-	-	98,478	-	52,553	30,880	-	543,528	3.5%
4 Clerks, CAG K Post Offices	7,280	13	88	99	124	-	124	0	59	-	-	59	-	32	16	-	302	4.2%
6&7 City Delivery Carriers	10,380,105	46,823	101,478	148,301	300,819	-	300,819	1,418	68,775	-	-	68,775	-	64,524	35,911	-	589,242	5.7%
8 Vehicle Service Drivers	402,333	588	3,818	4,414	5,137	-	5,137	16	2,819	-	-	2,819	-	1,409	771	-	12,949	3.2%
10 Rural Carriers	3,110,228	5,798	37,725	43,522	52,374	-	52,374	-	-	-	-	-	-	5,759	3,999	-	105,853	3.4%
11 Custodial & Maintenance Services	2,036,842	4,304	18,368	22,672	29,004	-	29,004	-	185	-	-	185	-	7,838	8,952	-	68,045	3.3%
12 Motor Vehicle Service	265,201	609	2,288	2,897	3,835	-	3,835	-	72	-	-	72	-	951	1,128	-	8,773	3.3%
13 Miscellaneous Local Operations	52,404	288	55	341	858	-	858	-	-	-	-	-	-	23	83	-	1,381	2.8%
14 Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
15 Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
16 Supplies and Services	12,221	48	112	158	195	-	195	-	-	-	-	-	-	31	43	-	422	3.5%
17 Research & Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
18 Headquarters and Area Administration	876,482	4,463	1,223	5,688	15,415	-	15,415	-	15,415	-	-	15,415	-	509	1,459	-	22,401	2.6%
19 Equip. Maintenance & Mgt Tng. Spt.	3,822	22	-	22	72	-	72	-	-	-	-	-	-	-	4	-	95	2.5%
20 Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Total Change in Salaries	37,178,285	121,001	308,635	429,638	728,378	-	728,378	31,819	758,198	-	-	758,198	-	138,408	211,554	-	1,500,580	4.0%
Source: Chapter VIII of Library Reference 1-127.																		
BENEFITS																		
COST SEGMENT	FY 2000 ACTUAL	COST LEVEL CHANGES-BENEFITS			CARRYOVER COSTS			NEW COSTS			LIFE INS.			ROLLUPS			TOTAL CST LEVEL	INCR %
		HEALTH	CSRS/RSERS	UNIF ALL	HEALTH	CSRS/RSERS	UNIF ALL	UNIF ALL	HEALTH	CSRS/RSERS	UNIF ALL	HEALTH	CSRS/RSERS	LI, RET, TSP	SS, MED			
1 Postmasters	289,184	2,991	-	-	7,890	-	-	-	-	-	-	-	-	5,158	3,842	-	19,881	6.9%
2 Supervisor and Technical Personnel	808,582	5,433	-	-	14,331	-	-	-	-	-	-	-	-	8,368	7,089	-	36,222	6.0%
3 Clerks & Mail Handlers, CAG A-J (Incl SDMsg)	3,998,922	37,529	-	-	98,478	-	-	214	98,478	-	-	98,478	-	52,553	30,880	-	219,884	6.1%
4 Clerks, CAG K Post Offices	1,982	22	-	-	59	-	-	0	59	-	-	59	-	32	16	-	130	6.6%
6&7 City Delivery Carriers	2,827,078	28,209	-	-	68,775	-	-	1,418	68,775	-	-	68,775	-	64,524	35,911	-	198,835	7.5%
8 Vehicle Service Drivers	105,104	998	-	-	2,819	-	-	16	2,819	-	-	2,819	-	1,409	771	-	5,813	5.5%
10 Rural Carriers	712,193	6,841	-	-	17,428	-	-	-	-	-	-	-	-	8,088	7,382	-	39,537	5.8%
11 Custodial & Maintenance Services	510,848	5,148	-	-	13,514	-	-	76	13,514	-	-	13,514	-	7,378	3,980	-	30,084	5.9%
12 Motor Vehicle Service	65,474	659	-	-	1,729	-	-	9	1,729	-	-	1,729	-	949	515	-	3,861	5.9%
13 Miscellaneous Local Operations	9,753	81	-	-	214	-	-	0	214	-	-	214	-	135	98	-	527	5.4%
14 Purchased Transportation of Mail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
15 Building Occupancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
16 Supplies and Services	2,853	22	-	-	73	-	-	0	73	-	-	73	-	42	24	-	161	5.6%
17 Research & Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
18 Headquarters and Area Administration	202,073	1,349	-	-	3,555	-	-	5	3,555	-	-	3,555	-	2,227	1,554	-	8,880	4.3%
19 Equip. Maintenance & Mgt Tng. Spt.	840	5	-	-	14	-	-	-	14	-	-	14	-	9	7	-	35	5.5%
20 Depreciation, Write-offs, Losses, & Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.0%
Total Change in Benefits	8,734,468	87,089	-	-	228,879	-	-	1,737	228,879	-	-	228,879	-	151,867	92,077	-	581,450	6.4%

Adjustment of Rollforward Cost for Workyear Mix and Final Adjustments
Dollars In Thousands

	FY 99 Rollforward	Workyear Mix	Adjusted Total	Mail Mix	Final Adjustments Priority	Sig. Confirm.	Other	Adjusted Total
1 POSTMASTERS	1,757,077		1,757,077					1,757,077
2 MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,824,407		3,824,407	(15,581)				3,808,816
3 CLERKS & MAILHANDERS	18,422,878	38,578	18,462,456	(143,810)				18,318,646
4 CLERKS, CAG K POST OFFICES	8,758		8,758					8,758
6&7 CITY DELIVERY CARRIERS	12,881,182	1,720	12,882,902	(22,748)				12,870,154
8 VEHICLE SERVICE DRIVERS	478,088		478,088	(8,520)				489,588
9 SPECIAL DELIVERY MESSENGERS								
10 RURAL CARRIERS	3,884,821		3,884,821	(7,573)				3,887,248
11 CUSTODIAL & MAINTENANCE SERVICES	2,448,898		2,448,898	(184)				2,448,504
12 MOTOR VEHICLE SERVICES	882,500		882,500					882,500
13 MISCELLANEOUS LOCAL OPERATIONS	304,885		304,885					304,885
14 CONTRACTURAL TRANSPORTATION OF MAIL	4,281,205		4,281,205	18,345				4,278,550
15 BUILDING OCCUPANCY	1,508,978		1,508,978					1,508,978
17 RESEARCH & DEVELOPMENT	83,445		83,445					83,445
19 EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	48,852		48,852					48,852
18 SUPPLIES & SERVICES	3,828,009		3,828,009					3,828,009
18 HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	4,898,898		4,898,898					4,898,898
20 DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	3,718,581		3,718,581					3,718,581
SUBTOTAL	82,539,181	41,288	82,580,469	(180,081)	-	-	-	82,400,388
Unallocated Final Adjustments	-	-	-	-	-	-	-	-
Totals	82,539,181	41,288	82,580,469	(180,081)	-	-	-	82,400,388

	FY 2000 Rollforward	Workyear Mix	Adjusted Total	Mail Mix	Final Adjustments Priority	Sig. Confirm.	Other	Adjusted Total
1 POSTMASTERS	1,802,981		1,802,981		285			1,803,226
2 MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,885,083		3,885,083	(20,533)	833			3,885,493
3 CLERKS & MAILHANDERS	18,183,862	30,437	18,184,389	(182,432)	8,186			18,011,183
4 CLERKS, CAG K POST OFFICES	9,271		9,271		2			9,273
6&7 CITY DELIVERY CARRIERS	13,010,478	3,428	13,013,802	(27,180)	2,509			12,988,251
8 VEHICLE SERVICE DRIVERS	507,544		507,544	(10,307)	331			497,588
9 SPECIAL DELIVERY MESSENGERS								
10 RURAL CARRIERS	4,188,731		4,188,731	(15,085)	308			4,153,942
11 CUSTODIAL & MAINTENANCE SERVICES	2,835,588		2,835,588	(265)	124			2,835,425
12 MOTOR VEHICLE SERVICES	708,584		708,584		158			708,752
13 MISCELLANEOUS LOCAL OPERATIONS	314,707		314,707					314,707
14 CONTRACTURAL TRANSPORTATION OF MAIL	4,481,873		4,481,873	80,078	7,303			4,558,054
15 BUILDING OCCUPANCY	1,583,730		1,583,730					1,583,730
17 RESEARCH & DEVELOPMENT	45,207		45,207					45,207
19 EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	48,782		48,782					48,782
18 SUPPLIES & SERVICES	3,544,482		3,544,482		8,170			3,550,832
18 HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	5,414,740		5,414,740					5,414,740
20 DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	3,784,582		3,784,582					3,784,582
SUBTOTAL	84,898,061	33,863	84,928,924	(205,714)	27,287	-	-	84,751,507
Unallocated Final Adjustments	-	-	-	-	250	-	-	250
Totals	84,898,061	33,863	84,928,924	(205,714)	27,547	-	-	84,751,757

[illegible]

Workers' Compensation
Discount Rate Analysis
Summary Table of Results of Medical Discount Rate Analyses
Derived from DRI Data
1987 - 1999

Prospective Analyses

	<u>Without 90-Day</u>			<u>With 90-Day</u>			<u>Average</u>
Publication Date	Trend Rate	Cyclical Rate	Average Rate	Trend Rate	Cyclical Rate	Average Rate	
Summer, 1987	1.83%	2.27%	2.05%	1.23%	1.70%	1.47%	1.82%
Winter, 1987-88	1.78%	2.17%	1.98%	1.15%	1.55%	1.35%	1.73%
Summer, 1988	1.59%	1.78%	1.69%	1.02%	1.18%	1.10%	1.45%
Winter, 1988-89	1.51%	1.36%	1.44%	1.06%	0.90%	0.98%	1.25%
Summer, 1989	1.07%	1.48%	1.28%	0.60%	0.98%	0.79%	1.08%
Winter, 1989-90	1.23%	3.52%	2.38%	0.67%	2.98%	1.83%	2.16%
Summer, 1990	1.73%	3.34%	2.54%	1.16%	2.80%	1.98%	2.31%
Winter, 1990-91	1.99%	2.04%	2.02%	1.44%	1.52%	1.48%	1.80%
Summer, 1991	1.99%	2.33%	2.16%	1.40%	1.73%	1.57%	1.92%
Winter, 1991-92	1.74%	1.32%	1.53%	1.18%	0.73%	0.96%	1.30%
Summer, 1992	1.50%	1.28%	1.39%	0.78%	0.55%	0.67%	1.10%
Winter, 1992-93	2.22%	2.13%	2.18%	1.40%	1.28%	1.34%	1.84%
Summer, 1993	2.07%	2.12%	2.10%	1.32%	1.34%	1.33%	1.79%
Winter, 1993-94	2.21%	2.01%	2.11%	1.48%	1.25%	1.37%	1.81%
Winter, 1994-95	2.40%	2.13%	2.27%	1.78%	1.50%	1.64%	2.02%
Summer, 1995	1.11%	1.12%	1.11%	0.86%	0.79%	0.83%	1.00%
Winter, 1995-96	0.58%	0.92%	0.75%	0.41%	0.52%	0.47%	0.64%
Summer, 1996	1.25%	1.61%	1.43%	0.83%	1.05%	0.94%	1.23%
Winter, 1996-97	1.35%	1.54%	1.45%	0.92%	1.02%	0.97%	1.26%
Summer, 1997	1.53%	1.86%	1.70%	1.20%	1.54%	1.37%	1.57%
Fall/Winter, 1997	1.26%	1.11%	1.19%	1.10%	1.05%	1.08%	1.14%
Winter, 1999	2.03%	1.71%	1.87%	1.80%	1.47%	1.64%	1.78%
Averages	1.64%	1.87%	1.75%	1.13%	1.34%	1.23%	1.54%

Historic Analyses

	<u>Without 90-Day</u>	<u>With 90-Day</u>
1988	1.37%	0.92%
1989	1.46%	1.00%
1990	1.52%	1.06%
1991	1.54%	1.07%
1992	1.55%	1.06%
1993	1.44%	0.91%
1994	1.59%	1.02%
1995	1.84%	1.29%
1996	2.15%	1.56%
1997	2.46%	1.90%
1998	2.59%	2.08%

WORKERS' COMPENSATION
DISCOUNT RATE ANALYSIS - MEDICAL
(HISTORICAL TRENDS)

Year	(1) Medical Inflation	(2) 10 Yr. U.S. Bonds	(3) NET 4 - 1	(4) 3-5 Yr. U.S. Bonds	(5) NET 6 - 1	(6) 90 Day T-Bills	(7) NET 8 - 1
1979	8.60	9.40	0.80	9.60	1.00	10.10	1.50
1980	11.30	11.50	0.20	11.50	0.20	11.40	0.10
1981	11.60	13.90	2.30	14.30	2.70	14.00	2.40
1982	9.60	13.00	3.40	13.00	3.40	10.60	1.00
1983	7.20	11.10	3.90	10.60	3.40	8.60	1.40
1984	6.70	12.40	5.70	12.10	5.40	9.50	2.80
1985	5.80	10.70	4.90	9.90	4.10	7.50	1.70
1986	4.60	7.70	3.10	7.20	2.60	6.00	1.40
1987	5.80	8.40	2.60	7.80	2.00	5.80	-
1988	6.80	8.90	2.10	8.40	1.60	6.70	(0.10)
1989	6.80	8.50	1.70	8.53 *	1.73	8.11	1.31
1990	5.50	8.55	3.05	8.32 *	2.82	7.49	1.99
1991	6.50	7.86	1.36	6.96 *	0.46	5.38	(1.12)
1992	5.50	7.01	1.51	6.18 +	0.68	3.43	(2.07)
1993	5.10	5.87	0.77	5.13 +	0.03	3.00	(2.10)
1994	4.00	7.08	3.08	6.68 +	2.68	4.35	0.35
1995	3.80	6.58	2.78	6.38 +	2.58	5.65	1.85
1996	1.90	6.44	4.54	6.17 +	4.27	5.14	3.24
1997	2.30	6.35	4.05	6.22 +	3.92	5.26	2.96
1998	2.20	5.26	3.06	5.15 +	2.95	4.78	2.58
AVERAGE			2.75		2.43		1.06
AVERAGE ALL		2.08					
AVERAGE W/OUT 90 DAY		2.59					

NOTES: * = 3-5 year bond index discontinued; 4 year bond index used instead.
+ = 4 year bond index discontinued; 5 year bond index used instead.

Source 1998 data: Standard & Poor's DRI The U.S. Economy, Winter 1999
Source 1997 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1997-98
Source 1996 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1996-97
Source 1995 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1995-96
Source 1994 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1994-95
Source 1993 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1993-94
Source 1992 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1992-93
Source 1991 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1991-92
Source 1990 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1990-91
Source 1989 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1989-90
Source 1987-88 data: DRI/McGraw-Hill U.S. Long-Term Review, Spring, 1988
Source 1977-86 data: DRI/McGraw-Hill U.S. Long-Term Review, Fall, 1986

Workers' Compensation
Discount Rate Analysis - Medical
Trend Projection

Year	(1) Medical Inflation	(2) 10 Year U.S. Bonds	(3) NET 4 - 1	(4) 5 Year U.S. Bonds	(5) NET 6 - 1	(6) 90 Day T-Bills	(7) NET 8 - 1
1999	2.10	4.93	2.83	4.87	2.77	4.61	2.51
2000	2.40	5.27	2.87	5.23	2.83	4.74	2.34
2001	3.10	5.38	2.28	5.30	2.20	4.73	1.63
2002	3.30	5.40	2.10	5.27	1.97	4.70	1.40
2003	3.50	5.35	1.85	5.22	1.72	4.72	1.22
2004	3.30	5.35	2.05	5.17	1.87	4.70	1.40
2005	3.30	5.39	2.09	5.19	1.89	4.70	1.40
2006	3.30	5.42	2.12	5.21	1.91	4.70	1.40
2007	3.30	5.56	2.26	5.37	2.07	4.93	1.63
2008	3.40	5.64	2.24	5.43	2.03	4.94	1.54
2009	3.60	5.65	2.05	5.44	1.84	4.96	1.36
2010	3.70	5.78	2.08	5.54	1.84	4.96	1.26
2011	3.70	5.87	2.17	5.61	1.91	4.93	1.23
2012	3.90	6.01	2.11	5.72	1.82	4.94	1.04
2013	4.10	6.14	2.04	5.85	1.75	5.06	0.96
2014	4.20	6.26	2.06	5.98	1.78	5.19	0.99
2015	4.30	6.35	2.05	6.07	1.77	5.30	1.00
2016	4.50	6.46	1.96	6.19	1.69	5.41	0.91
2017	4.80	6.61	1.81	6.34	1.54	5.54	0.74
2018	5.10	6.76	1.66	6.49	1.39	5.65	0.55

Averages: 2.13 1.93 1.33

Average All: 1.80

Average w/out 90 D 2.03

Source: Standard & Poor's DRI The U.S. Economy, Winter 1999
Trend Projection

Workers' Compensation
Discount Rate Analysis - Medical
Cycle Projection

Year	(1) Medical Inflation	(2) 10 Yr. U.S. Bonds	(3) NET 2-1	(4) 5 Yr. U.S. Bonds	(5) NET 4-1	(6) 90 Day T-Bills	(7) NET 6-1
1999	2.30	4.88	2.58	4.85	2.55	4.66	2.36
2000	2.90	5.12	2.22	5.18	2.28	5.03	2.13
2001	3.80	5.40	1.60	5.43	1.63	5.28	1.48
2002	4.30	5.58	1.28	5.36	1.06	4.47	0.17
2003	4.60	5.36	0.76	5.03	0.43	3.77	-0.83
2004	3.60	5.10	1.50	4.73	1.13	3.57	-0.03
2005	2.90	4.93	2.03	4.63	1.73	3.78	0.88
2006	3.00	5.11	2.11	4.93	1.93	4.57	1.57
2007	3.20	6.08	2.88	5.84	2.64	5.34	2.14
2008	3.60	6.22	2.62	5.88	2.28	4.93	1.33
2009	3.70	5.50	1.80	5.25	1.55	4.60	0.90
2010	2.90	5.21	2.31	5.01	2.11	4.59	1.69
2011	3.50	5.15	1.65	5.05	1.55	5.02	1.52
2012	4.20	6.12	1.92	5.92	1.72	5.56	1.36
2013	5.10	6.61	1.51	6.26	1.16	5.28	0.18
2014	4.80	6.27	1.47	5.92	1.12	4.97	0.17
2015	3.80	5.95	2.15	5.64	1.84	4.82	1.02
2016	4.20	5.84	1.64	5.61	1.41	5.00	0.80
2017	4.70	6.00	1.30	5.80	1.10	5.33	0.63
2018	5.30	6.33	1.03	6.18	0.88	5.83	0.53
Averages:			1.82		1.61		1.00
Average All:		1.47					
Average w/out 90-		1.71					

Source: Standard & Poor's DRI The U.S. Economy, Winter 1999
Cycle Projection

Workers' Compensation
Discount Rate Analysis
Summary Table of Results of Compensation Discount Rate Analyses
Derived from DRI Data
1987 - 1999

Prospective Analyses

Publication Date	Trend Rate	Cyclical Rate
Summer, 1987	2.92%	3.37%
Winter, 1987-88	3.14%	3.20%
Summer, 1988	2.82%	2.95%
Winter, 1988-89	2.97%	3.04%
Summer, 1989	2.57%	2.87%
Winter, 1989-90	2.88%	4.96%
Summer, 1990	3.00%	4.50%
Winter, 1990-91	3.27%	3.22%
Summer, 1991	3.47%	3.82%
Winter, 1990-91	3.41%	2.83%
Summer, 1992	2.96%	3.04%
Winter, 1991-92	3.42%	3.36%
Summer, 1993	3.23%	3.36%
Winter, 1993-94	3.00%	2.89%
Winter, 1994-95	3.30%	3.11%
Summer, 1995	1.88%	2.02%
Winter, 1995-96	1.69%	2.13%
Summer, 1996	2.78%	3.17%
Winter, 1996-97	2.89%	3.11%
Summer, 1997	2.74%	3.10%
Fall/Winter, 1997	2.39%	2.29%
Winter, 1999	3.10%	2.79%
Averages	2.90%	3.14%

Historic Analyses

1988	2.65%
1989	2.77%
1990	2.86%
1991	2.96%
1992	3.02%
1993	3.14%
1994	3.53%
1995	3.78%
1996	3.87%
1997	4.04%
1998	4.19%

WORKERS' COMPENSATION
DISCOUNT RATE ANALYSIS - COMPENSATION
(HISTORICAL TRENDS)
1979-1998

Year	(1) Urban Wage & Clerical Workers	(2) 20 Years U.S. Bonds	(3) NET 2 - 1	(4) 10 Yr. U.S. Bonds	(5) NET 4 - 1	(6) 3-5 Yr. U.S. Bonds	(7) NET 6 - 1
1979	11.40	9.30	(2.10)	9.40	(2.00)	9.60	(1.80)
1980	13.50	11.40	(2.10)	11.50	(2.00)	11.50	(2.00)
1981	10.30	13.70	3.40	13.90	3.60	14.30	4.00
1982	6.00	12.90	6.90	13.00	7.00	13.00	7.00
1983	3.00	11.30	8.30	11.10	8.10	10.60	7.60
1984	3.40	12.50	9.10	12.40	9.00	12.10	8.70
1985	3.50	11.00	7.50	10.70	7.20	9.90	6.40
1986	1.50	7.90	6.40	7.70	6.20	7.20	5.70
1987	3.60	8.70	5.10	8.40	4.80	7.80	4.20
1988	4.00	9.10	5.10	8.90	4.90	8.40	4.40
1989	4.80	8.44 *	3.64	8.50	3.70	8.53 **	3.73
1990	5.30	8.61 *	3.31	8.55	3.25	8.32 **	3.02
1991	4.00	8.14 *	4.14	7.86	3.86	6.96 **	2.96
1992	2.90	7.67 *	4.77	7.01	4.11	6.18 +	3.28
1993	2.80	6.60 *	3.80	5.87	3.07	5.13 +	2.33
1994	2.50	7.37 *	4.87	7.08	4.58	6.68 +	4.18
1995	2.80	6.88 *	4.08	6.58	3.78	6.38 +	3.58
1996	2.90	6.70 *	3.80	6.44	3.54	6.17 +	3.27
1997	2.20	6.61 *	4.41	6.35	4.15	6.22 +	4.02
1998	1.40	5.58 *	4.18	5.26	3.86	5.15 +	3.75
AVERAGE			4.43		4.24		3.92
AVERAGE ALL			4.19				

NOTES: * = 20 year bond index discontinued; 30 year bond index used instead.
 ** = 3-5 year bond index discontinued; 4 year bond index used instead.
 + = 4 year bond index discontinued; 5 year bond index used instead.

Source 1998 data: Standard & Poor's DRI The U.S. Economy, Winter 1999
 Source 1997 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1997-98
 Source 1996 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1996-97
 Source 1995 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1995-96
 Source 1994 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1994-95
 Source 1993 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1993-94
 Source 1992 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1992-93
 Source 1991 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1991-92
 Source 1990 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1990-91
 Source 1989 data: DRI/McGraw-Hill Review of the U.S. Economy, Long-Range Focus, Winter 1989-90
 Source 1987-88 data: DRI/McGraw-Hill U.S. Long-Term Review, Spring, 1988
 Source 1977-86 data: DRI/McGraw-Hill U.S. Long-Term Review, Fall, 1986

Workers' Compensation
Discount Rate Analysis - Compensation
Trend Projection

Year	(1) Urban Wage & Clerical Workers	(2) 30 Year U.S. Bonds	(3) NET 2 - 1	(4) 10 Year U.S. Bonds	(5) NET 4 - 1	(6) 5 Year U.S. Bonds	(7) NET 6 - 1
1999	2.00	5.29	3.29	4.93	2.93	4.87	2.87
2000	2.30	5.43	3.13	5.27	2.97	5.23	2.93
2001	2.30	5.47	3.17	5.38	3.08	5.30	3.00
2002	2.40	5.51	3.11	5.40	3.00	5.27	2.87
2003	2.50	5.49	2.99	5.35	2.85	5.22	2.72
2004	2.60	5.48	2.88	5.35	2.75	5.17	2.57
2005	2.60	5.51	2.91	5.39	2.79	5.19	2.59
2006	2.50	5.51	3.01	5.42	2.92	5.21	2.71
2007	2.50	5.60	3.10	5.56	3.06	5.37	2.87
2008	2.50	5.67	3.17	5.64	3.14	5.43	2.93
2009	2.50	5.68	3.18	5.65	3.15	5.44	2.94
2010	2.60	5.79	3.19	5.78	3.18	5.54	2.94
2011	2.60	5.90	3.30	5.87	3.27	5.61	3.01
2012	2.60	6.04	3.44	6.01	3.41	5.72	3.12
2013	2.70	6.16	3.46	6.14	3.44	5.85	3.15
2014	2.80	6.28	3.48	6.26	3.46	5.98	3.18
2015	2.90	6.35	3.45	6.35	3.45	6.07	3.17
2016	3.10	6.45	3.35	6.46	3.36	6.19	3.09
2017	3.20	6.60	3.40	6.61	3.41	6.34	3.14
2018	3.40	6.75	3.35	6.76	3.36	6.49	3.09
Averages:			3.22		3.15		2.94
Average All:		3.10					

Source: Standard & Poor's DRI The U.S. Economy, Winter 1999
Trend Projection
Urban Wage & Clerical Workers Index from Table 15, "Inflation and Productivity"
Interest Rates from Table 21, "Interest Rates, Money Flows, and Other Financial
Variables"

Workers' Compensation
Discount Rate Analysis - Compensation
Cycle Projection

Year	(1) Urban Wage & Clerical Worker	(2) 30 Yr. U.S. Bond	(3) NET 2 - 1	(4) 10 Yr. U.S. Bond	(5) NET 4 - 1	(6) 5 Yr. U.S. Bonds	(7) NET 6 - 1
1999	2.00	5.24	3.24	4.88	2.88	4.85	2.85
2000	2.80	5.22	2.42	5.12	2.32	5.18	2.38
2001	3.30	5.39	2.09	5.40	2.10	5.43	2.13
2002	3.20	5.71	2.51	5.58	2.38	5.36	2.16
2003	2.80	5.70	2.90	5.36	2.56	5.03	2.23
2004	2.90	5.43	2.53	5.10	2.20	4.73	1.83
2005	2.70	5.20	2.50	4.93	2.23	4.63	1.93
2006	2.90	5.19	2.29	5.11	2.21	4.93	2.03
2007	2.80	6.03	3.23	6.08	3.28	5.84	3.04
2008	1.90	6.32	4.42	6.22	4.32	5.88	3.98
2009	2.30	5.60	3.30	5.50	3.20	5.25	2.95
2010	2.70	5.24	2.54	5.21	2.51	5.01	2.31
2011	3.00	5.07	2.07	5.15	2.15	5.05	2.05
2012	3.40	5.98	2.58	6.12	2.72	5.92	2.52
2013	2.60	6.65	4.05	6.61	4.01	6.26	3.66
2014	2.20	6.31	4.11	6.27	4.07	5.92	3.72
2015	2.80	5.98	3.18	5.95	3.15	5.64	2.84
2016	3.10	5.83	2.73	5.84	2.74	5.61	2.51
2017	3.20	5.93	2.73	6.00	2.80	5.80	2.60
2018	3.40	6.21	2.81	6.33	2.93	6.18	2.78
Averages:			2.91		2.84		2.63
Average All:		2.79					

Source Standard & Poor's DRI The U.S. Economy, Winter 1999
Cycle Projection
Urban Wage & Clerical Workers Index from Table 15, "Inflation and Productivity"
Interest Rates from Table 21, "Interest Rates, Money Flows, and Other Financial
Variables"